

DOC/97/18

Brussels, 15th July 1997

COM (97) 2003

**Agenda 2000 - Commission Opinion on Romania's
Application for Membership of the European Union**

Also published as Bulletin of the European Union, Supplement 8/97

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A. INTRODUCTION

(a) Preface

The Application for Membership

Romania presented its application for membership of the European Union on 22 June 1995 and the Council of Ministers decided on 17 July 1995 to implement the procedure laid down in Article O of the Treaty, which provides for consultation of the Commission.

That is the framework in which the Commission submits the present Opinion, responding to the request of the European Council in Madrid in December 1995 to present the Opinion as soon as possible after the conclusion of the Intergovernmental Conference, which began in March 1996 and ended in June 1997.

The Context of the Opinion

The Romanian application for membership is being examined at the same time as applications from nine other associated countries. Romania's accession is to be seen as part of an historic process in which the countries of central and eastern Europe overcome the division of the continent, which lasted for more than 40 years, and join the area of peace, stability and prosperity created by the Union.

The European Council in Copenhagen in June 1993 concluded that:

“The associated countries in central and eastern Europe that so desire shall become members of the Union. Accession will take place as soon as a country is able to assume the obligations of membership by satisfying the economic and political conditions. Membership requires:

- that the candidate country has achieved stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities;
- the existence of a functioning market economy, as well as the capacity to cope with competitive pressure and market forces within the Union;
- the ability to take on the obligations of membership, including adherence to the aims of political, economic and monetary union.

The Union's capacity to absorb new members, while maintaining the momentum of European integration, is also an important consideration in the general interest of both the Union and the candidate countries”.

This declaration spelled out the political and economic criteria for examining the accession requests of the associated countries of central and eastern Europe.

The European Council in Madrid in December 1995 referred to the need, in the context of the pre-accession strategy, “to create the conditions for the gradual, harmonious integration of the applicant countries, particularly through:

- the development of the market economy,
- the adjustment of their administrative structure,
- the creation of a stable economic and monetary environment”.

In its Opinion, the Commission analyses the Romanian application on its merits, but according to the same criteria as the other applications, on which it is delivering Opinions at the same time. This way of proceeding respects the wish, expressed by the European Council in Madrid, to ensure that the applicant countries are treated on an equal basis.

In addition to the individual Opinions the Commission is presenting separately to the Council, in the framework of its communication “Agenda 2000”, a general assessment of the accession requests, and its recommendations concerning the strategy for successful enlargement of the Union. At the same time, it is presenting an evaluation of the impact of enlargement of the Union's policies.

The Contents of the Opinion

The structure of the Opinion takes account of the conclusions of the European Council in Copenhagen. It:

- describes the relations up to now between Romania and the Union, particularly in the framework of the Association Agreement;
- analyses the situation in respect of the political conditions mentioned by the European Council (democracy, rule of law, human rights, protection of minorities);
- assesses Romania's situation and prospects in respect of the economic conditions mentioned by the European Council (market economy, capacity to cope with competitive pressure);
- addresses the question of Romania's capacity to adopt the obligations of membership, that is the *acquis* of the Union as expressed in the Treaty, the secondary legislation and the policies of the Union;
- makes finally a general evaluation of Romania's situation and prospects in respect of the conditions for membership of the Union and a recommendation concerning accession negotiations.

In assessing Romania in respect of the economic criteria and its capacity to assume the *acquis*, the Commission has included a prospective assessment; it has attempted to evaluate the progress which can reasonably be expected on the part of Romania in the coming years, before accession, taking account of the fact that the *acquis* itself will continue to develop. For this purpose, and without prejudging the actual date of accession, the Opinion is based on a medium-term horizon of approximately five years.

During the preparation of the Opinion, the Commission has obtained a wealth of information on Romania's situation from the Romanian authorities and has utilized many other sources of information, including the Member States and numerous international organisations.

(b) Relations Between the European Union and Romania

Historical and Geopolitical Context

Romania is situated between the Black Sea and Danube delta to the south-east and is crossed by the Carpathian Mountains to the north-west, which also form a north-south barrier across much of the country. Its area is 237 500 km², and its population 22.6 million.

Romania was founded as an independent state in 1859 with the union of Wallachia and Moldavia. In the First World War Romania sided with the Allies, and was occupied by Austro-Hungarian, Turkish and Bulgarian forces. In the post-war settlement Romania recovered Bukovina and Transylvania. In the Second World War Bessarabia and Bukovina were occupied by the Soviet Union, and Romania also had to cede Transylvania back to Hungary and Dobruja to Bulgaria. In the 1947 Treaty of Paris Romania again recovered Transylvania and parts of Bukovina.

By 1947 the Communist Party had achieved power in Romania. In 1965 Nicolae Ceausescu became First Secretary of the Party, and subsequently President. As from the 1960s Romania maintained some distance from the Soviet Union in its external policies. Hence its membership both of Comecon and the IMF and the World Bank. Ceausescu's internal policies, however, were highly repressive, based on fear and manipulation. By late 1989 there was revolt within the party and popular uprising, which led to the removal and execution of Ceausescu in December of that year.

Free elections in May 1990 led to the adoption of a new constitution in December 1991, under which parliamentary and presidential elections took place in 1992 (which returned the former-Communists to power). The 1996 elections saw the first alternation of power. During this period Romania has also worked hard to regularise relations with its neighbours, concluding agreements with Hungary and Ukraine on recognition of borders and minority rights.

Romania's Position Concerning the European Union

Romania submitted its application for membership of the European Union on 22 June 1995 along with a national pre-accession strategy and a declaration signed by the Presidents of the Republic, the Senate and the Chamber of Deputies and the Prime Minister and the leaders of all the political parties represented in Parliament. This declaration expresses Romania's political will to pursue the consolidation and development of the rule of law, political pluralism, the separation of powers, free elections, respect for human rights and the establishment of a market economy compatible with the principles governing the European Union.

The change of government in November 1996 and the reforms launched by the new government have brought preparations for "Euro-Atlantic" integration to the centre of Romania's foreign policy. This was clear from the statement issued by President Emil Constantinescu when Mr Santer visited Bucharest on 10 April 1997. The President saw European and Euro-Atlantic integration as a major political priority for Romania, indeed as the only avenue for development in the national interest. Romania's most important and pressing objective was to take its place among continental Europe's democracies.

The President said that the country would be pressing on with the major structural reform of its economy, legislation and institutions required for integration into Europe. The crux of this effort, the true significance of taking on the Community acquis, was, however, the assimilation of democratic values and respect for human and civil rights. Respecting and consolidating these values was the ultimate goal of Romania's integration into Europe. For Romania, the Union was above all a gateway to a balanced and harmonious structure organising the continent's micro- and macrocosms under the flag of European civilisation, a common home in which all are equal in dignity, while remaining themselves.

Contractual Relations

Romania was the first CEEC to have contractual relations with the EC: a Generalised System of Preferences Agreement in 1974, and an Agreement on Industrial Products in 1980. Romania's diplomatic relations with the EC date from 1990. Following Romania's return to democracy a Trade and Cooperation Agreement was signed in 1991. This was superseded by the entry into force of the Europe Agreement in February 1995, the trade provisions of which had already come into force in May 1993 under an Interim Agreement. Trade in wine is covered by a parallel agreement expiring at the end of 1997.

The Europe Agreement is now the legal basis for Romania's relations with the European Union. Its aim is to provide a framework for political dialogue, promote the expansion of trade and economic relations between the parties, provide a basis for Community technical and financial assistance, and an appropriate framework to support Romania's gradual integration into the Union. The institutional framework of the Agreement provides the necessary mechanism for implementation, management and monitoring of all areas of relations. Subcommittees examine questions at a technical level. The Association Committee, at a senior official level, provides for in-depth discussion of issues and often finds solutions to problems arising under the Agreement. The Association Council examines the overall status of and perspectives for the relationship and provides the opportunity to review Romania's progress in preparing for accession.

In order to strengthen government policy- and decision-making in matters related to European integration, the Government set up the Department for European Integration, which in January 1997 was upgraded into a Ministry answering to the Prime Minister. Advice on European integration is provided by an interministerial committee chaired by the Prime Minister and served by the Department for European Integration. Ministries retain responsibility for the execution of their respective parts of the Europe Agreement and the pre-accession preparation, including, inter alia, the approximation of legislation. The Department for European Integration has been responsible for the preparation of the national strategy for the implementation of the Commission's White Paper on the internal market, in consultation with the 23 EU Integration Working Groups.

The Pre-Accession Strategy

Implementation of the Europe Agreement and the White Paper

The EA is being implemented for the most part according to the timetable set out in the Agreement. The Association Council has met at ministerial level once each year, and the Association Committee has met twice at senior official level. A Joint Parliamentary Committee comprising representatives of the Romanian and European Parliaments has met on four occasions. A structure comprising nine multidisciplinary subcommittees has also been established and is operating.

For certain provisions of the Agreement there have been delays in entry into force. The implementing rules on competition among companies, which should have entered into force in 1996, did so only in 1997, while the regulation of state aids has yet to be defined. The trade provisions of the Agreement are being implemented on schedule with few problems. The Romanian authorities have not invoked any of the trade defence provisions in the Agreement. An anti-dumping procedure was opened in 1996 by the European Commission in respect of seamless pipes, and provisional duties have been applied since June 1997.

Currently, the main issues discussed in the framework of the Europe Agreement are: approximation of legislation and pre-accession strategy; macroeconomic progress; trade issues; opening of Community programmes; certification and standardisation issues; and third-pillar cooperation.

The Commission White Paper of 1995 on the internal market set out the legislation which the candidate countries would need to transpose and implement in order to apply the *acquis*, and identified elements essential to the implementation of the Single Market (known as Stage I measures) for priority attention. Romania has attached importance to this work. The Government adopted in December 1995 a detailed strategy for the adoption of the *acquis*. In parallel, it called for the involvement of large sectors of the society in the process, namely trade unions, business associations and the professional associations.

In general, implementation of the Europe Agreement is going ahead without problems, though there have been some delays. Slow economic liberalisation and a lack of real administrative reform have made it difficult to exploit the Agreement fully, but the new government is improving this.

Structured Dialogue

Romania has participated in the structured dialogue, seeing it as a key part of its preparations for accession. It has used the dialogue to report on its reform policy and called for it to be stepped up. In the context of the dialogue Romania has played a significant role in work to recreate stability in former Yugoslavia.

Phare

In 1996, ECU 118.4 million was committed for Romania. Total commitments for the period 1990-96 were ECU 731 million. The principal sectors for which Phare has been used are: agriculture; education, training and research; infrastructure; and the private sector, restructuring and privatisation.

Romania has no common border (terrestrial or maritime) with any EU Member State. No Romanian region is, therefore, eligible for Phare cross-border cooperation programmes between CEECs and EU Member States. But a cross-border cooperation programme was approved in 1996 for the border with Hungary; it includes projects in the sectors of economic development, transport, environment and the third pillar.

There have been difficulties with programme implementation owing to the lack of a clear commitment to policy reform, particularly in agriculture and industry. But reasonable commitment rates have been maintained.

Participation in Community Programmes

As from 1997 Romania will be participating in Socrates, Leonardo and Youth for Europe. It is preparing to take part in LIFE, SAVE and various social programmes too.

Trade Relations

EU exports to Romania in 1995 amounted to ECU 3.8 billion, up from ECU 1.2 billion in 1990. EU imports were at ECU 3.4 billion in 1995, up from ECU 1.6 billion in 1990. Romanian trade with other CEECs is not developing at the same pace as that with the EU. Textiles are the main EU export, light industry products the main import.

Difficulties in the development of bilateral trade are mainly linked to regulatory and administrative issues, such as the issuing of export licences or certification requirements. But recently introduced Romanian legislation should help to overcome difficulties over the latter, while the remaining Romanian export restrictions are due to be eliminated by January 1998.

General Evaluation

Since 1989 relations between Romania and the EU have developed positively. There have been few significant policy obstacles to overcome, though Romania will need to tighten its border controls. The speed of Romania's progress towards integration has been determined by the economic and political reform and has been hampered by the continuing weakness of its administrative structures.

B. CRITERIA FOR MEMBERSHIP

1. Political Criteria

The European Council in Copenhagen decided on a number of “political” criteria for accession to be met by the candidate countries in central and eastern Europe. These countries must have achieved “stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities”.

In carrying out the assessment required in this connection, the European Commission has drawn on numerous sources of information: answers given by the Romanian authorities to the questionnaire sent to them by the Commission services in April 1996, bilateral follow-up meetings, reports from Member States’ embassies and the Commission’s delegation, assessments by international organisations (in particular the Council of Europe and the OSCE), reports produced by non-governmental organisations, etc.

The following assessment involves a systematic examination of the main ways in which the public authorities are organised and operate, and the mechanisms for the protection of fundamental rights. It does not confine itself to a formal description but seeks to assess the extent to which democracy and the rule of law actually operate.

This assessment relates to the situation in June 1997. It does not examine in detail any changes which have taken place in the past or which may come about in the future, though it generally takes account of any stated intention to reform a particular sector. The situation of the administrative structures is mentioned here only in passing: it will be examined in greater depth in Chapter 4.

1.1 Democracy and the Rule of Law

The new constitution adopted by referendum in December 1991 marked Romania’s transition to parliamentary democracy. The country’s institutions work normally, with the different powers taking care not to overstep the bounds and cooperating with each other.

Parliament and Legislative Powers: Structure

The Romanian Parliament is bicameral: the Chamber of Deputies has 343 members and the Senate 143. Members are elected for four years by proportional representation (subject to parties obtaining at least 3% of the vote). Fifteen seats are reserved for minorities in the Chamber of Deputies.

Article 89 of the Constitution allows the President of the Republic to dissolve Parliament if, after at least two unsuccessful attempts, no government is formed within sixty days. Parliament may not be dissolved more than once in any year. Nor may it be dissolved during the last six months of the President’s term of office or under a state of siege or emergency.

Members of Parliament enjoy the usual immunities. Either chamber may set up a committee of enquiry if a third or more of its members so decide. Representation on a committee is proportional to the number of seats held by a group in the chamber concerned.

Romania is a multiparty democracy: 57 parties fielded candidates in the parliamentary elections of November 1996. Parties obtaining over 2% of the vote receive budget funding, more if they are represented in Parliament.

The two chambers exercise legislative power on a footing of strict equality, each of them able to block the law-making process. They share the right of initiative with the Government. A bill may also be submitted to Parliament if sponsored by a quarter of a million citizens, provided it does not concern taxation, international affairs or an amnesty.

Article 114 of the Constitution permits the Government - with Parliament's authorisation - to stand in for Parliament and legislate by emergency decree. The Government would appear to have made considerable use of this possibility (over a third of the last government's acts are said to have been adopted in this way), sometimes in the matter of "organic laws", which are normally excluded from the procedure.

Under Article 90 of the Constitution, the President may, after consulting Parliament, organise a referendum on "matters of national interest." Amendments to the Constitution must be endorsed by a referendum before they can take effect (see Article 147.3). The referendum procedure has not been used since the Constitution took effect.

Functioning of Parliament

Notwithstanding a few organisational problems, the November 1996 elections were free and fair, permitting the first real democratic handover since 1947.

Parliament operates satisfactorily: its powers are respected and the opposition plays a full part in its activities.

The Executive: Structure

The President of the Republic is elected by universal suffrage under a two-round system. Election is for a four-year term, renewable once only. Candidates must be supported by 100 000 electors and over 35 years of age. In addition to the usual powers of a head of state, the President plays a major role in the institutional and political life of the country.

The Government is answerable to Parliament, which may overturn it by a simple majority of the two chambers sitting together. It comprises a prime minister and ministers appointed by the President after confirmation by Parliament.

Ministers are individually liable only under criminal law. Article 108 of the Constitution lays down the procedure for bringing an action against a minister (impeachment by the Chambers or the President, judgement by the Supreme Court). The Government is currently drafting a law on ministers' responsibilities in the exercise of their duties.

Central government has devolved the administration of the country to the counties (*judets*). There are 41 counties plus Bucharest, which enjoys comparable status. Each county is headed by a prefect, who coordinates public services and supervises the acts of the local authorities, which he may refer to the courts. Counties, municipalities, towns and communes all have elected assemblies (2686 councils). The president of a county, like a mayor, is elected by universal suffrage.

The county councils coordinate the activities of local councils. Mayors exercise executive power at communal level. They are answerable to the local council and the general council. A prefect has the power to dismiss elected local officials on the grounds of negligence or corruption. This power, which has in the past been abused (1992-95 saw the dismissal of 133 mayors and 98 town councillors), is now exercised within the framework of a law adopted in 1996 and amended in 1997.

The Romanian administration is not governed by a civil service act setting out the rights and obligations of officials. The Government is planning to introduce legislation on administrative accountability, which is currently lacking.

The army, the secret services and the police are controlled by the civilian authorities. The police - a branch of the military in Romania - is subject to military tribunals. There are, however, certain procedural guarantees, with the military section of the Supreme Court serving as a court of final instance. In the case of the armed forces, the Supreme Council of National Defence submits a certain number of decisions for parliamentary approval under Law No 39/90. There is, however, no supervision of their application.

Functioning of the Executive

The central institutions of the State operate normally, with the President playing a key role in their activities.

The exercise of local autonomy is hampered by the lack of an official regulatory framework for local government employees and by local authorities' limited financial resources. Furthermore, rules have still to be drawn up on the ownership of communal property. The new government has already adopted a law strengthening and clarifying local powers. It is now drafting a law on local authority financing, which should enter into force early in 1998 together with a law on communal property.

The situation of the administration remains difficult. The lack of a civil service act and particularly low salaries pose problems. The appointment of political place-men to certain levels of the administration has in the past stimulated corruption. The new Government has tabled a civil service law including stringent penalties for corruption.

Acts of brutality by the Romanian police force have not always been prosecuted, and there have been cases of corruption. The secret services continue to wield extensive powers regarding the classification of official documents, phone tapping and searches. This state of affairs is largely attributable to the ambiguity of the legislation governing their activities. The new government plans to reform this legislation to strengthen parliamentary control over the secret services, notably through the establishment of a parliamentary committee to supervise the activities of the foreign intelligence services.

The Judiciary: Structure

Romania's courts have increasingly asserted their independence from the other powers. Judges appointed by the President (80% of judges, the remainder being trainees) enjoy tenure. Judges are managed by the Supreme Council of the Magistracy, which is chaired by the Minister of Justice and made up of judges and prosecutors (5 of the Council's 15 members) elected by Parliament for four-year terms.

The executive supervises the activities of judges via a body of inspectors under the authority of the Minister of Justice. Though judges are the best paid staff in the public sector, low wages are causing many to seek better-paid work in the private sector.

The department of public prosecutions, which is headed by a Prosecutor-General appointed by the President, is under the umbrella of the Minister of Justice. Prosecutors have extensive powers; in particular, the Prosecutor-General may, on either his own initiative or that of the Minister of Justice, seek a review of a final court ruling in a number of civil and criminal cases. Moreover, large areas of prosecutors' activities are not subject to judicial control.

Appeals against acts of the administration may be lodged with ordinary courts, which have special chambers for this purpose.

The "People's Advocate" introduced by the Romanian Constitution fulfils the functions traditionally assigned to an Ombudsman. However, his powers and the means of exercising them are not clearly defined.

The Constitutional Court, which was set up in 1992, consists of nine members appointed for a single nine-year term of office. The President, the Chamber of Deputies and the Senate each appoint three members to the Court. It verifies the constitutionality of bills at the request of various authorities (the Presidents of the Republic, the Chamber of Deputies or the Senate, the Government, the Supreme Court, or a group of 50 deputies or 25 senators) and also scrutinises existing laws at the request of any interested party involved in legal proceedings. However, the Court's ruling that an act is unconstitutional is without effect if Parliament upholds its original decision by a two-thirds majority (Article 145 of the Constitution), which limits considerably the scope of the supervision exercised.

Functioning of the Judiciary

The Romanian judicial system is not working satisfactorily. The courts are overloaded and judgements can be a long time coming. The problems can be attributed to a shortage of qualified judges (23% of posts are vacant), a lack of equipment, complex procedures and the great number of new rules to be enforced. The Government has tabled a bill reforming dealings between the executive authorities and the department of public prosecutions to increase the latter's autonomy, especially with regard as to whether cases should come to court. There are also plans to increase salaries (already substantially increased towards the end of 1996) and staffing in the Romanian judiciary.

The fact that the Constitutional Court's rulings can be overturned by a two-thirds majority of Parliament is a major obstacle to genuine constitutional control in Romania.

1.2 Human Rights and the Protection of Minorities

Romania has introduced various internal rules designed to ensure respect for human rights and the rights of minorities. Such rights are also underpinned by the application of certain international conventions, in the forefront of which is the European Convention for the Protection of Human Rights and its main additional protocols. Under Article F of the TEU, observance of human rights is part of the *acquis communautaire*: any State wishing to join the European Union must first ratify the said texts.

In June 1994 Romania, which has been a member of the Council of Europe since October 1993, ratified the European Convention for the Protection of Human Rights and the additional protocols thereto. It also permits individuals to take their case to the European Court of Human Rights if they consider that their rights under this convention have been violated.

It has ratified the European Convention for the Prevention of Torture and the Framework Convention for the Protection of National Minorities. By contrast, it has signed but not ratified the European Social Charter. It has also ratified the main human rights conventions concluded in the framework of the United Nations.

Under Article 11 of the Constitution international conventions ratified by Parliament become part of the domestic legal order, with treaties on fundamental rights taking precedence over Romanian domestic law (Article 20.2 of the Constitution).

Civil and Political Rights

The Romanian Constitution recognises the right of any person to seek redress through the courts. The principle is backed up by a relatively well-developed system of legal aid. However, judicial control over the activities of the police is not sufficient to enable people to bring grievances to court, the liability of police officers being extremely limited under current legislation. The latest draft regulations for the police forces do not substantially improve this situation of near-impunity.

Capital punishment was abolished for all offences in 1989.

There are certain obstacles to the exercise of the right not to be arbitrarily arrested. While a person may not be held for more than 24 hours without a warrant issued by a prosecutor or judge, there are exceptions to this rule, especially in the case of minors. A judge may, moreover, authorise someone to be held on remand for 30 days. During this period a suspect may appeal to a court for release. The judicial authorities, however, make excessive use of preventive detention.

All citizens over 18 years of age have the right to vote.

The freedoms of association and peaceful assembly are likewise guaranteed by the Constitution and exercised without difficulty. There are today almost 12 000 NGOs in Romania.

Freedom of expression is exercised by a broad spectrum of print and audio-visual media (2 national public channels, 10 private channels and many others available by cable and satellite). The Constitution prohibits censorship. The severe penalties laid down in the Criminal Code for false reporting and defamation can be powerful constraints on journalists' freedom of expression. The Government has announced its intention to revise the provisions in question. Economic pressure can also be exerted on the press through the dominant position of the state-owned enterprise LETEA in the distribution of newsprint. The government has been known to interfere in the management of state-owned radio and television stations.

The right of ownership is now guaranteed: expropriation is possible only in the public interest and after fair compensation has been awarded. Foreigners may own land in Romania provided it is for the purposes of an economic activity. The process of compensating people expropriated by the Communists is now under way, its progress differing according to the nature of the property. Jewish property has been restored to its rightful owners. A bill has been tabled restoring property to members of minorities. Negotiations now under way with the Orthodox Church should soon permit the Uniate Church to recover its property.

Respect for privacy is endangered by the considerable powers of the secret services, which may in some circumstances conduct searches and monitor communications without a warrant.

The position of asylum seekers is disturbing because they are not always given satisfactory access to justice and accommodation. In particular, the ten-day deadline for lodging a request for asylum seems too tight.

Several organisations have reported cases of inhumane and degrading treatment by the police. This is particularly alarming because Romania has no provision for punishing such actions. Despite recent improvements, the state of the country's prisons remains poor.

As regards equality before the law, homosexuals are exposed to abuses by the vagueness of the term "public scandal" as applied to homosexual acts by Article 200 of the Penal Code.

The rights of the child have long been a matter for concern in Romania. The system introduced in 1970 in an attempt to boost population growth were not accompanied by the requisite machinery for helping birth families or placing children in foster homes; as a result many children were abandoned in squalid state orphanages. Over 100 000 children are affected, a figure which has risen slightly of late. In response to a situation that flies in the face of some of Romania's international obligations (and in particular the 1989 Convention on the Rights of the Child), the Union has spent almost ECU 70 million, much of it through the Phare programme.

The situation may improve shortly. The Government has approved two emergency decrees: the first abolishes the system introduced by Law No 3/1970 and replaces it with new provisions and the second facilitates adoption under a system administered by the counties. Family allowances have been increased and other measure adopted to help families in difficulty.

Economic, Social and Cultural Rights

The right to the minimum means of subsistence and social security is written into the Constitution.

The right to belong to a trade union is recognised except in the public sector. Trade unions' prerogatives in the matter of collective bargaining and the guarantees accorded to protected employees seem inadequate. About 40% of Romania's workers are members of trade unions, with most belonging to one of four confederations.

The right to strike is recognised in all sectors other than those considered to be of public interest by the Government (public services and certain strategic state-owned enterprises), which may also impose a minimum service (one third of normal service) in other fields. In practice, however, public-sector employees have gone on strike without incurring sanctions. Elsewhere the right to strike is often undermined by the obligation to notify a conciliation body before withdrawing labour. Many strikes are, moreover, declared illegal by the courts.

The rights to education and freedom of religion are guaranteed in Romania.

Minority Rights and the Protection of Minorities

Minorities account for 13-15% of Romania's population. The largest minorities are Hungarians (7.8%) and Roma (gypsies), who are estimated to make up to 5-7% of the population.

The protection of minorities in Romania is guaranteed by a number of international agreements. In 1995 the country ratified the Council of Europe's Framework Agreement on Minorities. It also endorsed the principles laid down in (non-binding) Recommendation 1201 of the Council of Europe's Parliamentary Assembly when signing a bilateral treaty with Hungary in September 1996. However, a footnote added to the treaty at Romania's request expressly rules out any recognition of collective rights under the Recommendation.

Minorities in Romania enjoy special rights of representation in Parliament (see above). In the new government, a minister from the UDMR (a party representing the Hungarian minority) has been placed at the head of a Department for Minorities. Since 1993 issues concerning minorities have been put to a national council, which can investigate complaints. In contrast, Article 236 of the Criminal Code punishing any person singing a foreign national anthem or carrying a foreign flag has been seen as an attack on minorities.

Relations with the Hungarian minority have improved appreciably since the signing of a bilateral treaty with Hungary in September 1996 and the arrival in office of a government including two ministers from the UDMR. A new education act should shortly replace that of June 1995 (never applied), which limited the scope for teaching in a minority language and increased the percentage of teaching in Romanian. Romania's minorities will therefore be able to continue to be educated in their own languages. A new decree entitles members of minorities to deal with the administration and obtain birth, marriage and death certificates in their own language in areas where they account for over 20% of the population. This currently applies to 1624 places in Romania, 1379 of them inhabited by the Hungarian minority.

The Roma, who account for a considerable percentage of the population (1-1.5 million, depending on the estimates), are the victims of discrimination in many areas of everyday life. They are quite often assaulted by police officers or members of the public, offences that go unpunished. Besides the discrimination they suffer from the rest of the population, sociological and cultural factors account to some extent for their very difficult social situation. It is important that the Government step up the integration measures recently announced to take full account of the difficulties encountered by this section of the population.

Further information is needed on the situation of the Roma and a reliable assessment of their numbers and social situation (rate of unemployment, health statistics, level of education) in Romania, for which no figures are currently available.

1.3 General Evaluation

Romania's new institutions are democratic and their stability now seems guaranteed. They do, however, need to be anchored by greater respect for the primacy of law at all levels of the apparatus of State. Elections are free and fair; they led to a genuine change-over in November 1996.

There remain a number of shortcomings with regard to respect for fundamental rights, even if the measures adopted and the undertakings given by the Romanian authorities since November 1996 are steps in the right direction. For instance, much still remains to be done in rooting out corruption, improving the working of the courts and protecting individual liberties from the activities of the police and secret service campaign or in the course of criminal proceedings.

By the same token, even if the Hungarian minority seems well integrated (given the recent improvement in its situation), the same cannot be said for the Roma (gypsies), who constitute a sizeable minority in the country.

Lastly, the reforms concerning the protection of children in orphanages are a major step forward but have still to bear fruit.

The improvement now under way since the new government came to power suggest that Romania is on the way to meeting the political conditions laid down by the Copenhagen European Council.

2. Economic Criteria

In examining the economic situation and prospects of Romania, the Commission's approach is guided in particular by the conclusions of the European Council in Copenhagen in June 1993, which stated that membership of the Union requires "the existence of a functioning market economy, as well as the capacity to cope with competitive pressure and market forces within the Union".

This section of the Opinion therefore gives a concise survey of the economic situation and background, followed by a review of Romania's progress in key areas of economic transformation (liberalisation of the price and trade system, stabilisation of the economy, structural change, reform of the financial sector) as well as its economic and social development. It concludes with a general evaluation of Romania in relation to the criteria mentioned by the European Council and a review of prospects and priorities for further reform.

2.1 THE ECONOMIC SITUATION

Background

Romania, with a population of 22.6 million, had in 1995 a gross domestic product (GDP) of ECU 93 billion (expressed in purchasing power parity); its population was about 6.5% of the Union's, while its economy was only about 1.5%. Per capita GDP is about 24% of the Union average. Average monthly wages were estimated at about ECU 65 at end March 1997.

Romania is a founder member of the WTO. On 1 July 1997, it became a member of CEFTA.

Progress in Economic Transformation

When Romania emerged from the Ceausescu regime at the end of 1989 it was one of the central and east European countries whose institutions, as well as economic, legal and social infrastructure, were the furthest from those of a market economy. Its economy had gone through a particularly difficult decade. In a determined but ill-advised drive to pay off the country's external debt, the authorities had engaged in a forced export drive and in a ruthless compression of imports, which starved the country of badly needed inputs. Prestige projects with little economic return absorbed a substantial fraction of gross domestic product.

At the beginning of the nineties, the collapse of Comecon, the Gulf War and the disintegration of Yugoslavia represented formidable external shocks, which hit the country at a time of major political turmoil.

After the overthrow of the Ceausescu regime in December 1989, Romania found itself in a deep economic and social crisis. For several years, the country failed to marshal sufficient political will to decide and implement successful reforms. Confusion characterised 1990, with acute economic disorganisation, exacerbated by a breakdown of law and order and dramatic worker absenteeism. Though comprehensive in scope, the 1991 and 1992 reform programmes were not fully implemented and went off the rails. It was only with the programme launched at the end of 1993 that significant progress was achieved: a tighter monetary policy, greater fiscal discipline, a reduction in inflation and some acceleration of enterprise reform all contributed to a resumption of growth. But reforms were slowed down again in late 1995/early 1996.

In fact, the authorities repeatedly launched new reform programmes, only to abandon them a few months afterwards in the face of mounting political resistance. Public support for reform has fluctuated accordingly: it was substantial at the beginning of the transformation, then substantially diminished in the face of mounting costs brought by the transition, only to strengthen again when it became apparent that the path of partial reforms conducted between 1989 and 1996 was leading nowhere.

The inherent contradictions of this strategy were only fully addressed after the legislative and presidential elections of November 1996, when the new government devised a radical programme of macroeconomic stabilisation and structural reforms, and began its implementation.

As a result the country is in a peculiar situation. While in 1996, the private sector generated 52% of GDP, the economy is still dominated by state-owned, loss-making monopolies and value-subtracting enterprises. However, if the measures that have been announced in early 1997 are effectively implemented, the Romanian economy will be radically different at the end of 1997.

Foreign Direct Investment

Foreign Direct Investment (FDI) is low for a country of Romania's size: at the end of 1996, the cumulative stock of FDI was only ECU 1.1 billion (source: EBRD). In the first years of the transition, given the great uncertainties on the political and economic course of the country, investors adopted a very cautious stance, reinforced by the defiance of some leading political forces to accept foreign investment. Only in 1994 did the flows of FDI picked up. However, they have remained insufficient to make a strong impact on the economy. In a clear change of policy, the new government has been actively courting foreign investors. Foreign investors are now authorised to own land and an emergency ordinance introduced in June 1997 makes profit repatriation easier and clarifies support measures for foreign investors.

Economic Structure

Agriculture is a major economic activity in Romania. In 1996 it contributed about 20% of total Gross Value Added (GVA), a proportion that has been rising since 1990. Employment in the sector is high by international standards - more than a third of the total active population - and has even been increasing during transition, reflecting its role in absorbing labour shed by other sectors. Productivity in farming and in the food industry remains low. The share of the private sector in agricultural production stood at 87% in 1996.

The reforms implemented in 1991 led to a parcelization of land. Property rights were ill-defined - the majority of farmers were assigned only temporary ownership titles. The resulting uncertainty about property rights means that individuals are currently able neither to sell land nor use it as collateral. However, the new government is committed to pass a new Land Law before June 1998, which should clarify ownership rights and establish the bases for a competitive land market. Land sales are now possible.

Capital resources for restructuring and modernisation are insufficient. The development of private-sector agriculture is hampered by an insufficient degree of mechanisation, and a shortage of adequate support facilities and credits. However, the closure of the most inefficient state-owned farms, rapid privatisation, the reduction in directed credits and the liberalisation of the trade and price regimes should lead to greater incentives for a more efficient agricultural production.

Main indicators of economic structure (all data for 1996 unless otherwise indicated)		
Population	<i>million</i>	22.6
Per capita GDP	<i>PPS-ECU (1995)</i>	4100
as % of EU-15 average	<i>per cent (1995)</i>	24
Share of agriculture in:		
gross value added	<i>per cent (1995)</i>	19.9
employment	<i>per cent (1995)</i>	34.4
Gross foreign debt/GDP	<i>per cent</i>	25
Exports of goods & services/GDP	<i>per cent</i>	27
Stock of foreign direct investment	<i>billion ECU</i>	1.1
	<i>ECU per capita</i>	50
Source: Commission services, national sources, EBRD		
*FDI stock converted at end 1996 exchange rate of ECU 1 = USD 1.25299		

Industry accounts for more than a third of total gross value added (GVA), a percentage which has fallen rapidly in the recent years and is now more in line with levels in the EU. Industrial employment is roughly of the same magnitude, but has declined in absolute values. However, industrial structures have not changed much since 1989. Industry is still dominated by the same very large state-owned enterprises which were set up by the previous regime in the years of forced industrialisation, and which are characterised by very high energy intensity, low productivity and privileged access to state funding. Relatively easy availability of cheap energy and raw materials, and the high priority given to the development of heavy industry, have led to a specialisation in sectors like the oil and petrochemical industries, which are not in line with the country's natural endowment or comparative advantages. The share of the private sector in industrial production remains low (24% in 1996) and has not progressed much in the recent years (it was 20.7% in 1995).

Many of the large enterprises which dominate the industrial sector remain inefficient and unprofitable, and represent a major source of macroeconomic instability. However, the new government has decided to take drastic actions, including outright closure of some of the biggest loss-makers, restructuring, privatisation and the end of directed credits.

Small and medium-sized private enterprises have been rather dynamic, especially in sectors of light industry, such as food processing, textiles and furniture. However, the growth of small and medium-sized enterprises and the privatisation process have affected the employment structure in the industrial sector only marginally: at the end of 1994, enterprises with more than one thousand employees employed more than 60% of the total labour force, and state-owned firms accounted for more than 84% of total employment, despite the fact that they represented only 6.5% of the total number of firms.

Although the situation has somewhat evolved since then, the concentration of the labour force in a few large, inefficient enterprises still represents a major obstacle to industrial restructuring. The social costs which are unavoidably linked to this process have often been used as an argument to postpone the necessary changes.

Productivity has been increasing steadily since 1994. This improvement has occurred predominantly in small and medium-sized enterprises.

Romania was among the least service-oriented economies in central and eastern Europe. Services accounted for less than 20% of GDP during the 1980s. A rapid expansion has taken place after 1989, mostly through flourishing private activity in retail sales and tourism. In 1996 services accounted for about 36% of GVA, with the private sector contributing over three quarters of this total.

According to Romanian estimates, the size of the informal sector could be around 20-30% of GDP. The high marginal rates of the wage tax, as well as of the social security contributions, have led a sizeable proportion of workers either to escape the channels of the official economy or to seek other, not officially-declared sources of income.

Liberalisation

Price Regime

A phased programme of price liberalisation was introduced at the end of 1990. Most consumer subsidies were eliminated in 1993, when the number of consumer goods under direct price control was also greatly reduced. By the end of 1995, administered prices accounted for 3% of consumer goods and services, about 7% of industrial producer prices and more than 27% of raw and basic materials. In early 1997, the new government decided to further complete price liberalisation, by limiting the number of controlled prices to less than 20 items (essentially prices of public utilities and energy). In particular, the prices of a number of key agricultural products were liberalised in March 1997.

Trade Regime

The liberalisation of the foreign trade regime has been rather rapid: it was largely completed by the end of 1992. It started in 1990 with the abolition of the monopoly on foreign trade. Already in 1991 enterprises, and to a more limited extent the public, were authorised to detain, and to trade in, foreign currency. Export and import licenses were largely eliminated in 1992, when a new tariff code was introduced. However, a feature of Romania's trade policy has been the proliferation of discretionary and temporary reductions in tariff rates, in particular in the form of tariff quotas (i.e. departures from the "statutory" levels of import duties, through the application of lower duties or outright duty exemptions for pre-determined quantities of goods). In fact, in 1995, around half of Romania's imports (in value terms) were subject to special arrangements, rendering largely irrelevant the country's import tariff schedule. In 1996, substantial trade restrictions were introduced (including derogations from the basic duties, export prohibitions and export quotas), in an attempt to curb a rising trade deficit. Some measures were not in conformity with the provisions of the Europe Agreement on trade relations between the EU and Romania.

However, the new government is committed to introduce a new customs code in the course of 1997, which should improve the transparency of the trade regime. In particular, the authorities intend to end all export bans and quotas by 1998. Already, in May 1997, they have reduced significantly the external tariff for agricultural products. Romania will become a member of CEFTA on 1 July 1997.

Foreign Exchange Regime

The foreign exchange regime has been substantially liberalised. The old system of multiple exchange rates was abolished at the end of 1991, with the unification of the “official” and the “commercial” rates. Subsequently, however, the market was characterised by forms of administrative interference. In August 1994, a foreign exchange interbank market was established, but in March 1996 the authorities introduced substantial controls which led international lenders (including the EU and the IMF) to suspend their financial assistance. A significant spread appeared between the official parity and the rate used at the private exchange bureaux. Control of the exchange market led to an overvaluation of the national currency, which in turn helped to keep down the cost of energy imports for the large, energy-intensive, state-owned enterprises.

In 1997, the new government again liberalised the foreign exchange market; all banks recovered their dealership licences and other curbs were lifted. The spread between the official and unofficial rates disappeared, the currency adjusted to more realistic levels, and transaction volumes on the interbank market increased significantly.

At present Romania enjoys only a limited form of current- and capital-account convertibility. The adoption of Article VIII of the IMF Articles of Agreement, and consequently of a more advanced form of convertibility, would require addressing the remaining administrative restrictions and ensuring a higher level of official reserves.

Stabilisation of the Economy

Domestic

In 1995, Romania’s GDP grew by 7.1% in real terms. However, in 1996, despite declining unemployment, the macroeconomic performance was not so good: growth slowed down to 4.1%, inflation accelerated to 56.9% at the end of December and the budget deficit of the general government soared to 3.9% of GDP (and to 8.3% of GDP for the quasi-fiscal deficit, which includes a number of hidden expenditure items and quasi-fiscal subsidies from the National Bank of Romania). In 1996 real GDP reached 88% of 1989 levels.

In fact, macroeconomic policy has not always followed a coherent course: periods of restrictive policies, responsible for most of the positive results in terms of macroeconomic stabilisation, have been followed by periods in which policies were relaxed to a degree in response to pressures from interest groups. Indeed, in the run-up to the November 1996 elections, there was a substantial loosening of both the monetary and fiscal stance. As a result, the new government, besides structural reforms, has had to take drastic stabilisation measures, which should lead to a temporary contraction of the economy in 1997.

Main economic trends		1994	1995	1996
Real GDP growth rate	<i>per cent</i>	3.9	7.1	4.1
Inflation rate				
annual average	<i>per cent</i>	136.7	32.3	38.8
December on December	<i>per cent</i>	61.7	27.8	56.9
Unemployment rate, end-year	<i>per cent</i>	8.1	8.0	6.3*
	<i>ILO definition</i>			
General government budget balance	<i>per cent of GDP</i>	-2.0	-2.6	-3.9
Current account balance	<i>per cent of GDP</i>	-1.47	-4.6	-5.8
Debt/export ratio	<i>per cent</i>	76.6	73.9	85
Foreign direct investment inflow	<i>per cent of GDP</i>	1.1	1.0	1.5
<i>Source: Commission services, national sources, EBRD</i>				

* Registered unemployment

External

Both the trade balance and the current account have been in deficit since 1990. The current account deficit reached an all-time high in 1996, amounting to ECU 1.8 billion. The worsening of the external position is the result of several factors. It is in part due to an increase in imports of capital goods determined by the strong economic recovery. This is not a negative development since imported capital will add to productive capacity. However, the deterioration also reflects serious structural weaknesses: a marked increase in imports of consumer goods as well as a very sizeable increase of imports of fuels and raw materials, used primarily by unreformed sectors of the economy characterised by poor value-added and high energy intensity. In 1996, exports suffered from the overvaluation of the currency. The stabilisation measures introduced in early 1997 should have a positive impact on the trade balance (already reflected in the figures for the first quarter) but a negative impact on the volume of trade (especially on imports, as shown by the trends observed in the first months of 1997).

Romania's external debt remains relatively low, but has recently been increasing rapidly. At the end of 1996, the medium and long term external debt stood at ECU 5.5 billion. Debt servicing (ECU 950 million in 1996) does not represent for the time being a major drain on resources, but could rapidly become more problematic given the short-term profile of Romania's debt. In 1995 Romania managed to regain access to the international private financial markets through a series of syndicated loans. It also obtained quite favourable credit ratings from major international rating agencies - helped, no doubt, by its low level of external indebtedness. In 1996, it raised ECU 1.1 billion on the international capital markets and there is considerable interest from commercial and investment banks to do business with the country. For 1997, the government set a ceiling of USD 2,5 billion for external commercial borrowing.

The exchange rate has reflected the uneven path of macroeconomic policy. A period of relative stability from late 1993 to mid-1995 was followed by a policy of artificial overvaluation. This has

been now reversed and the national currency has been allowed to depreciate rapidly at the beginning of 1997 (cf. above).

Structural Change

Foreign Trade

External trade has been substantially re-oriented away from the former Comecon partners and towards western Europe. Trade with EU member countries represented about half of Romanian's foreign trade in 1996. Trade with Germany, France and Italy has been particularly dynamic, although Romanian exports in 1996 have suffered due to the low level of demand in some of the main EU countries. However, Russia, and to a lesser extent some developing countries in the Middle East and Asia, still are significant trade partners for Romania.

The commodity composition of trade is undergoing a similar adjustment. Since 1990 Romania has slowly, but steadily reduced its traditional exports of mineral and chemical products, as well as products of the machine-building industry. The reduction of the former reflects increasingly binding import constraints. The reduction of exports of manufactures, instead, is largely related to the collapse of intra-Comecon trade, with declining demand from traditional partners of the former socialist bloc. In recent years there has been a substantial increase in exports by the textile and leather industries, as well as wood products (pulp, paper and furniture). On the import side, minerals and fuels account for an increasing share of the total (slightly less than one quarter in 1996). Imports of textiles and leather products have also increased significantly.

It is hard to say whether this commodity composition of trade is likely to prevail also in the medium term. On the one hand, the reduction of exports of heavily energy-intensive products is probably going to continue and should be seen as a positive development. On the other, the expansion of trade in textiles and leather products is largely related to outward processing trade (OPT), which is based on low unit labour costs.

Labour Market

The Romanian labour market is characterised by a striking reallocation of employment in favour of the agricultural sector. This sector appears to have absorbed a large proportion of labour released by the reduction of industrial activity. Also the dramatic increase of self-employment has contributed to limit the negative impact of the recession. The unemployment rate declined substantially between the beginning of 1995 and the end of 1996 (when it reached 6.3% according to Romanian official figures, which are not compiled by ILO methods), but is forecast to jump to more than 10% at the end of 1997 following the introduction of the new economic programme. High levels of unemployment could well be a feature of the years to come if the restructuring process of the large state-owned enterprises sector continues.

There has been a steady increase in labour productivity (measured as GDP per person employed) since 1993. This is caused more by the shedding of excess labour and a reduction in absenteeism, than by effective restructuring of production processes in the many large industrial enterprises.

Public Finances

Fiscal policy and institutions have undergone significant changes since the beginning of the transformation. Major changes have aimed at adapting the taxation system to a new, decentralised economy, at redefining priorities for expenditure and improving budget management. A value-added tax was introduced in July 1993, replacing the existing turnover tax. The tax on the wage

funds of the enterprises was replaced by a tax on wage income at the end of 1993. In August 1994 a new profits tax law was issued.

Social protection has undergone marked improvements. An unemployment fund was established in 1990, while pensions were partially indexed. The major remaining problem concerns the long-term financial sustainability of the system.

While Romania managed to have budget surpluses in the 1980s, the fiscal situation has deteriorated significantly since 1991. The budget deficit of the consolidated general central government reached 3.9% of GDP in 1996 (5.7% of GDP on an accruals basis) and the quasi-fiscal deficit soared to 8.3% of GDP. The worsening state of the public finances reflected the growing support to loss-making and inefficient sectors of the economy (especially agriculture and “régies autonomes”). While the new government is committed to reduce the budget deficit to 3.7% of GDP in 1997 (including expenditures previously considered as of a quasi-fiscal nature), the improvement hinges critically on the successful restructuring of the enterprise sector and on the privatisation of medium and large state-owned companies.

EnterpriseSector: Privatisation andEnterprise Restructuring

The development of the private sector has been slow but noteworthy. In 1996, the private sector accounted for 52% of GDP. The expansion of private activity is the result of two phenomena: the transfer of property from the state sector, and the creation of new enterprises. Altogether about 750 000 private firms, about a third of which are small family-run enterprises, have been registered over the last five years. Privatisation is fairly advanced in small enterprises and in the agriculture sector. It is less so in industry, especially among large firms. Private-sector involvement in sectors such as energy and telecommunications remains largely non-existent. In fact, in 1996, the share of the private sector accounted for less than 25% of industrial production. The slow pace of privatisation and the limited availability of credit represent, as in most economies in transition, the main obstacles to the further development of the private sector.

Given that privatisation has been largely restricted to worker/management buyouts, the impact on the performance of medium-sized and large enterprises has so far been limited. At end May 1997, only 840 of the 3257 medium-sized and large enterprises offered for privatisation in 1991 had been privatised.

The new authorities have put forward an ambitious plan for privatisation and enterprise restructuring. The official goals are for 50 medium- and large-scale companies to be privatised per week beginning on 1 March 1997; to close rapidly some of the largest state-owned loss-makers; and to transform most of the so-called “régies autonomes” into commercial companies. Furthermore, no minimum prices will be set at auctions, which should increase the pace of the privatisation process.

Financial Sector

A two-tier banking system was introduced in Romania in December 1990: the National Bank of Romania (BNR) assumed the traditional central banking functions, while its commercial operations were transferred to four state-owned commercial banks. Since then the banking system has undergone important changes. By end-1996, there were 40 banks operating in Romania, including nine branches or subsidiaries of foreign banks. Despite plans to increase bank privatisation, the sector continues to be dominated by state-owned banks, some of which have a high proportion of bad loans in their portfolios. Some banks might be exposed to difficulties in the course of the current restructuring process of the enterprises sector, when some of their corporate clients will be liquidated.

The banking sector continues to present considerable segmentation and concentration, for deposits as well as loans: each of the large banks tends to service a particular part of the market, with limited competition. Five state-owned banks account for more than two-thirds of aggregate assets, and for three quarters of commercial loans.

Legislation on bank supervision by the BNR is fairly advanced. An effort is under way to redefine the role of its regional branches, which is deemed essential to strengthen supervision. With the assistance of major foreign central banks, the supervision department of the BNR is being expanded. Critical legislation on bank insolvency will be introduced, and prudential and accounting regulations are being brought in line with international standards. However, although formally independent and subordinated to the Parliament, the central bank was subject in the past to a certain degree of interference from the government. Pressures have been repeatedly exerted on the central bank not only on issues like exchange-rate management, but also on supervision, licensing and crisis management. The clearest example was the special credits extended by the central bank to loss-making state-owned enterprises and agricultural companies.

The monetary authorities gradually moved from direct instruments of monetary control (credit ceilings) to more market-oriented ones. Currently the policy instruments of the BNR include refinancing credits, interest rates and minimum reserve requirements. A multilateral clearing system was established in April 1995. Commercial banks are actively encouraged to introduce new payment instruments, although non-cash transactions are still quite limited.

About 40 insurance and reinsurance companies are registered in Romania. However, the sector is still dominated by three state-owned companies. An official stock exchange (BSE) started to operate at the end of 1995, and a private secondary market (Rasdaq) opened in September 1996, where shares from the mass privatisation programme are traded. However, the financial markets are still in their infancy: the number of companies listed on the BSE is very small, volumes are relatively limited and the disclosure requirements remain unclear (especially on Rasdaq).

Economic and Social Development

Social Indicators

Romania's population is relatively young: in 1995 about 66% was less than 44 years old. This is the result of the previous regime's policy to strongly encourage childbirth, which included generous financial provisions for families with children, a strict law against abortion, a total ban on contraception, and harsh penalties on those breaking these laws. Birth rates declined dramatically after 1990, when this policy was officially abandoned. Falling fertility and increased emigration have contributed to an overall reduction of the population by almost 500 000 since 1991.

Romania continues to have high infant and maternal mortality rates, well above those in the EU and other countries of central and eastern Europe. This is testimony of the relative degradation of the quality of the health system; in fact, Romania has one of the lowest levels of health spending among European countries (3.9% in 1991). A large number of Romanian households (one unofficial estimate puts it at 9%) are living below the poverty line.

Basic education is generally good, with a very high literacy rate. However, secondary education has traditionally been heavily directed towards vocational training, and enrolment ratios in higher education are low. Since 1989, the number of students in higher and university education has increased significantly, probably as a result of the removal of enrolment restrictions and because of sharply increased youth unemployment.

Regional and Sectoral Differences

Bucharest concentrates 10% of Romania's population and enjoys a level of development well above the national average. Its population has much better access to health and other public services, and unemployment is lower. This is linked to the relatively diversified structure of the economy, the importance of the services sector (which is growing) and the presence of many foreign investors.

Historically, some regions of the country (Bucharest, Galati, Transylvania) were more industrialised than others. However, during the forced industrialisation of the post-war period, the authorities decided to locate the new industrial centres in all regions, often with little consideration for the regional economy's comparative advantages (e.g. the Calarasi steel complex). At present, some regions remain very specialised in heavy industry, and a few towns rely almost exclusively on one industry or one large *combinat* (e.g. Resita).

In 1994, Romania was characterised by significant disparities in unemployment levels. Regions with above-average figures included areas with obsolete heavy industries (counties of Caras-Severin, Dolj and Olt in the South, Galati, Iasi and Bacau in the north-east) or in relatively less industrialised areas (counties of Tulcea, Vaslui, Botosani in the north-east).

2.2 The Economy in the Perspective of Membership

Introduction

The European Council in Copenhagen in 1993 defined the conditions that the associated countries in central and eastern Europe need to satisfy for accession. The economic criteria are:

- -the existence of a functioning market economy;
- -the capacity to cope with competitive pressure and market forces within the Union.

These criteria are linked. Firstly, a functioning market economy will be better able to cope with competitive pressure. Secondly, in the context of membership of the Union, the functioning market is the internal market. Without integration into the internal market, EU membership would lose its economic meaning for both Romania and its partners.

The adoption of the *acquis*, and in particular the internal market *acquis*, is therefore essential for a candidate country, which must commit itself permanently to the economic obligations of membership. This irreversible commitment is needed to provide the certainty that every part of the enlarged EU market will continue to operate by common rules.

The capacity to take on the *acquis* has several dimensions. On the one hand, Romania needs to be capable of taking on the economic obligations of membership in such a way that the single market functions smoothly and fairly. On the other hand, Romania's capacity to benefit fully from the competitive pressures of the internal market requires that the underlying economic environment be favourable, and that the Romanian economy have flexibility and a sufficient level of human and physical capital, especially infrastructure. In their absence, competitive pressures are likely to be considered too intense by some sections of society, resulting in a call for protective measures, which, if implemented, would undermine the single market.

The capacity and determination of a candidate country to adopt and implement the *acquis* will be crucial, since the costs and benefits of doing so may be unevenly spread across time, industries and social groups. The existence of a broad based consensus about the nature of the changes to economic policy which membership of the Union requires, and a sustained record of implementation of economic reforms in the face of interest group pressure reduces the risk that a country will be unable to maintain its commitment to the economic obligations of membership.

At the level of the public authorities, Membership of the Union requires the administrative and legal capacity to transpose and implement the wide range of technical legislation needed to remove obstacles to freedom of movement within the Union and so ensure the working of the single market. These aspects are examined in later chapters. At the level of individual firms, the impact on their competitiveness of adopting the *acquis* depends on their capacity to adapt to the new economic environment.

The Existence of a Functioning Market Economy

The existence of a market economy requires the equilibrium between supply and demand is established by the free interplay of market forces. A market economy is functioning when the legal system, including the regulation of property rights, is in place and can be enforced. The performance of a market economy is facilitated and improved by macroeconomic stability and a degree of consensus about the essentials of economic policy. A well-developed financial sector and an absence of significant barriers to market entry and exit help to improve the efficiency with which an economy works.

Romania has made enormous progress since the beginning of the transition, although it cannot be considered, as yet, to be a functioning market economy. Prices have to a great extent been liberalised and the main barriers to trade removed. However, Romania remains a country characterised by a significant degree of government interference with the working of the economy. Property rights and their transferability are not yet fully assured for at least one factor of production: land. Regulatory bodies are still being set up and their capacity to ensure that legislation is respected and implemented still needs to be developed.

Policy-making on economic issues has not always been coherent. As a result, progress towards macroeconomic stability has not been steady: recent years have been characterised by widely fluctuating performances in term of growth, inflation and unemployment. Economic agents do not necessarily perceive the macroeconomic environment to be stable enough to promote the necessary level of savings and investment (both domestic and foreign).

If fully implemented, the comprehensive programme of macroeconomic stabilisation and structural reforms announced by the authorities in early 1997 should radically transform Romania's economy and lay the foundations for healthy growth in the years ahead. But the implementation of the basic features of the programme, especially with regard to restructuring, will take many years. It is yet too early to assess whether the programme will be implemented fully and successfully. Moreover, the uneven path of reform and macroeconomic instability in the recent past point to the fact that some economic agents do not seem yet to be fully committed to reform. Some powerful groups that stand to lose from the current reforms are calling for more state intervention in the economy, more price controls and a return to old methods of economic management. The consolidation of the market mechanisms that are being put in place in all sectors of the economy largely depends on the emergence of a clear and broad consensus on a medium term strategy by the most important economic, social and political forces.

In order to complete its transformation process successfully and prepare for EU membership, the country still needs to implement many, detailed and complex measures. Good progress in implementation of the Europe Agreement should help to complete the functioning of the market economy and should ensure that the transition to membership of the Union is relatively smooth. This requires a government and administrative system which are fully committed to these ends. The transparent, consistent and effective application of laws, coupled with economic agents' expectations that this will be the case, enable a market economy to function more efficiently. In Romania the public administration (taken here to include regulatory and supervisory agencies as well as decision-making bodies) has some way to go in ensuring that laws are effectively applied after they have been adopted.

In the past, foreign investors have singled out the unpredictable evolution of the legal system and the different interpretation of double taxation treaties as obstacles to doing business in Romania.

The financial sector, an essential feature of a modern market economy, has so far been unable to exert its financial intermediation role in an appropriate way. The viability of the financial sector must be strengthened by further privatisation and by the introduction of effective supervision. Once the banking sector is properly monitored and privatised, it will be able to help impose financial discipline on the enterprise sector. A law on bank privatisation has recently been adopted.

Finally, competition has been enhanced by privatisation and greater opening to international trade. Nevertheless, there are severe limits to free entry and exit in specific economic activities. Private involvement in sectors such as energy and telecommunications remains largely non-existent despite the clear benefits this would bring in terms of fresh capital and know-how. However, changes have only recently begun: two GSM mobile telephone networks are now in operation and the authorities have decided to dismantle the Romanian Petroleum Company. The absence of market mechanisms in much of the agricultural sector has resulted in high prices, high levels of protection and inefficiencies. Despite radical reforms being introduced with the support of the international financial institutions, a very substantial amount of restructuring and investment needs to be carried out over many years to bring the sector more in line with developments in the European and world markets.

The Capacity to Cope with Competitive Pressure and Market Forces

It is difficult, some years ahead of prospective membership, and before Romania has adopted and implemented the larger part of Community law, to form a definitive judgement of the country's ability to fulfil this criterion. Nevertheless, it is possible to identify a number of features of Romania's development which provide some indication of its probable capacity to cope with competitive pressure and market forces within the Union.

This requires a stable macroeconomic framework within which individual economic agents can make decisions in a climate of a reasonable degree of predictability. There must be a sufficient amount of human and physical capital including infrastructure to provide the background so that individual firms have the ability to adapt to face increased competitive pressures in the single market. Firms need to invest in greater efficiency so that they can both compete at home and take advantage of economies of scale which flow from access to the internal market. A firm's capacity to adapt will be proportional to its access to investment finance, the quality of its workforce and the success of its efforts to innovate.

Moreover, an economy will be better able to take on the obligations of membership the higher the degree of economic integration it achieves with the Union ahead of accession. The more integrated a country already is with the Union, the less the further restructuring implied by membership. The level of economic integration is related to both the range and volume of goods traded with member states. Direct benefits from access to the single market may also be greater in sectors where there are a sizeable proportion of small firms, since these are relatively more affected by impediments to trade.

In the case of Romania, an evaluation of competitiveness is made particularly difficult because of the major reforms that have been launched recently. Indeed, the ability to withstand competitive pressure depends not only on the current structure of the economy, but also on the way in which it will develop in the near to medium-term future. In this respect, Romania offers a contrasted situation: the existing economic structure points to very important structural weaknesses, while the reforms that have been announced at the beginning of 1997 could have a very positive impact in a relatively short period of time, especially if rapid privatisation is achieved and foreign direct investment is forthcoming. However, in order to withstand competition within the Union both the industrial and agricultural sectors would need to undergo major structural transformation.

The current production base in industry relies to a large extent, although not exclusively, on sectors with very high energy intensity, or which are strongly dependent on imported raw materials, or have been the object of exercises of capacity reduction within the Union. Given Romania's labour costs and skilled workforce, specialisation in these sectors (metal-working, chemicals, shipbuilding, machine building) is not necessarily a bad strategy, provided of course that products are adapted to the needs, standards and quality requirements of western markets. At present, major efforts have to be accomplished in these respects. Furthermore, many of the large state-owned enterprises have benefited from direct and indirect subsidies, which have slowed or even hampered their necessary adaptation and modernisation. The current structural reforms should aim at the restructuring of the very large state-owned *combinats*, which, in their present condition, would face strong competitive pressures from their western competitors.

A diversification of the industrial base towards lighter industries, entailing the creation of a large number of new, small and medium-sized enterprises, and increased participation of foreign capital and know-how, will help Romania adjust to the restructuring of the large enterprises. Light industry is already well-developed in some sectors (wood products, leather, textiles) and has achieved good performances on exports markets.

Although agriculture has been neglected in the last decades, it represents a potentially important source of comparative advantage for Romania, which used to be a substantial exporter to European and world markets before the second world war. But the process of modernisation of the agricultural sector has just begun and will require a policy aiming at stimulating investments both in the farming sector and in the food industry.

Foreign direct investment has been low for a country the size of Romania: at the end of 1996 cumulative FDI per capita stood at ECU 50. With a few notable exceptions, FDI has not made a significant contribution to the modernisation of either industry or agriculture. This means that production in many sectors still relies on old and obsolete technologies. Increasing the chances that Romanian producers will be able to withstand competition of high-quality, high-standards EU goods, and improving the level of skills in the economy calls for much bigger inflows of FDI.

The level of FDI is also linked to the technological level of the economy. At present, spending on research and development is very low in commercial companies. Fundamental research is still carried out mostly by state laboratories, and often in the context of military programmes. The bulk of the research and technological development is carried out by state-owned enterprises.

The limited availability of public funds means that companies will have to fund a growing share of their R&D or seek the help of foreign partners. In fact, FDI provides a quicker way to raise the level of technological development through embodied technologies in industrial processes and production/management techniques.

At present, the relatively low level of technological development points to a comparative advantage in those industries with high content of low-quality factors of productions. Furthermore, most of Romania's industry has not yet started the process of modernisation and upgrading of the quality of its factors of production. In these circumstances, most of the economy would be in a difficult position to withstand the competitive pressure of the single market.

In a market economy the financial sector is also a significant element in enhancing the competitiveness of a country, by helping to distinguish between viable and unviable firms and by creating the conditions for viable enterprises to prosper. In this respect the situation in Romania is not satisfactory: the sector is too weak, riddled with bad debts and dominated by state-owned banks. Access to risk capital for small and medium-sized private enterprises is more difficult than for big, state-owned firms. Medium- to long-term loans are not readily available, nor is equity financing. Nevertheless, actions taken in the first months of 1997, such as initiating the privatisation process for State-owned banks and modernisation of key legislation, should lead, if fully implemented, to a significant improvement in the strength of the country's financial sector.

Economic growth and modernisation hinges on the development of proper transport infrastructures, as well as on an improvement of the human capital of the country through better health care and education. In all three domains, given the poor starting conditions, current efforts will most likely not be sufficient to give Romania the basis for competing successfully in the single market in the near future.

Romania possesses a number of key advantages: its geographical location at the cross-roads of many trade routes and in particular as the sea-gate for accessing central European markets; the size of its population which will attract industries with economies of scale; the relatively young population which points to vast needs for durable goods; and its low level of labour costs. All these factors could make Romania a strong export base for accessing markets of smaller neighbours, especially for consumer goods.

Major increases in productivity have been observed in the last couple of years, and even more are expected in the future. As part of the new programme, trade unions have accepted a reduction in the indexation of nominal wages, which should ensure that real wages remain relatively low. Moreover, while the unavoidable tendency of the real exchange rate to appreciate in the medium term will increase Romania's labour costs with respect to its competitors, this is not likely to happen quickly, given the recent steep real depreciation of the currency.

Romania has reoriented a large part of its trade towards EU markets. Trade with the EU in 1996 has been lacklustre and will probably remain so in the next year or so, as the recession in Romania affects negatively the volume of trade. This suggests that economic integration with the Union remains relatively low at present, and that an early opening-up to the competitive pressures of the Single Market would create a significant shock for the Romanian economy.

Prospects and Priorities

The relative success which Romania achieved in macroeconomic stabilisation during 1995 and 1996 rested on very fragile foundations. In fact, given the very slow progress in structural reforms, the high growth rates of this period were not sustainable, and not compatible with the aim of integrating Romania in the European and world economy. This diagnosis was at the heart of the economic and social programme of the new government elected in November 1996.

The programme of macroeconomic stabilisation and structural reforms announced in February 1997 represents a very ambitious attempt to radically transform, in a relatively short period of time, the old economic structures and lay the foundations for a fully-functioning market economy. However, this is only a first step in the right direction and much remains to be done.

A stable and predictable macroeconomic framework is the first key condition for laying the foundations of sustainable growth and modernisation of the microeconomic side of the economy. The adoption of strict monetary and fiscal policies over the medium term will be critical in this respect and should, among other things, avoid the resurgence of high and variable inflation. Inflation has accelerated in the first months of 1997 (reaching 174% on an annualised basis in May), reflecting the liberalisation of controlled prices and adjustments in the structure of relative prices. Although monthly inflation is already declining sharply, it will be a challenge for the new authorities to bring down this rate to much lower levels in the next few years.

Tight control over public finances will have a number of benefits. By reducing inflationary expectations and eliminating outdated and inefficient public programmes, it will free much-needed public resources for investment in critical areas (e.g. education, health, infrastructure).

In the medium term, the growing foreign debt could become a factor for macroeconomic instability. A growing foreign debt should not in itself be a source of concern, provided the country earns enough foreign exchange to service it, in particular through dynamic exports, and the current account deficit is financed soundly, notably through regular inflows of long-term foreign investment. Although the policies of the new government should help in those respects, these conditions are not yet firmly established in Romania.

The new Romanian authorities have already recognised the crucial role that foreign investors and international financial institutions will play in the success of their reform efforts. Restoring confidence among international investors and lenders and securing their medium-term investment in Romania calls for a stable macroeconomic framework, a sustained and credible commitment to structural reforms, a clear and broad political consensus over a medium-term strategy and the continuing legitimacy of reforms among the population. These conditions are indispensable to reduce political and economic uncertainty and so lay the foundations for successful investment planning.

The new economic programme involves very important structural reforms in almost all sectors of the economy: financial sector reform; enterprise restructuring; agriculture and the foreign exchange market. Important measures have already been implemented: the foreign exchange market is now almost fully liberalised, some large, loss-making state-owned enterprises have been closed, privatisation has accelerated and most input prices have been brought to international levels. But further reforms, in addition to those identified in the previous sections, will be needed to prepare for EU membership.

The financial system is still characterised by the overwhelming presence of state-controlled banks, which remain vulnerable to moral suasion and do not always operate in a completely transparent way. The ultimate objective should be to provide an appropriate framework for financial intermediation and to ensure new entry into the sector, both in the form of creation of new enterprises, or through foreign participation. Further progress is necessary in order to restructure and privatise state-owned commercial banks. The speed and efficiency of the payment system should be improved.

Repeated attempts to impose financial discipline on state-owned enterprises, particularly “régies autonomes”, have run into obstacles. The effective execution of programmes of enterprise restructuring and financial recovery suffered from the lack of (adoption and implementation of) the necessary legislation. There is the need to put in place efficient corporate governance for the state enterprises not slated for privatisation.

More generally, Romania will need to develop a more effective culture of corporate governance, through the creation of a class of managers trained in western methods of management, better supervision by banks and investment funds of their loans and investments, more transparent disclosure of financial information and a less passive involvement of shareholders. In this respect, the successful completion of the privatisation programme in the years ahead is a crucial condition for preparing the economy to function in a market environment.

The capacity of the public sector to implement structural reforms will need to be adapted to the basic features of market economy. In particular, implementation of the *acquis* will require new skills.

Consolidating the institutional and legal framework of a market economy is an important part of creating an environment in which the large number of small enterprises which have been established in recent years, and private enterprise in general, can flourish. It is not surprising that some of the features of more mature market economies are somewhat underdeveloped. Specifically, there is a need to strengthen the regulatory mechanisms which enable a market economy to function effectively. At the most basic level, this means ensuring that property rights and commercial contracts are readily enforceable. Progress in this domain is likely to be incremental: an efficient system of commercial law does not emerge instantly.

Beyond this elementary but crucial aspect of the legal framework lies the need for an effective competition policy. The legal mechanisms are now in place: a competition Law has been passed in April 1996 and a competition council has been established. After the privatisation of dominant firms, Romania will need to ensure that they operate in an appropriate regulatory/competitive environment and that potential competitors can effectively enter the market.

The poor state of Romania's transport and telecommunications infrastructures represents a serious bottleneck for the medium-term growth prospects of the economy. Better infrastructure will improve the total productivity of production factors. They will contribute to facilitate and expand trade with close and distant neighbours. They will also help Romania reap advantages and transport revenue from its strategic location at the cross-roads of many regional trade routes.

Finally, improving the quality of the human capital is also a key issue for the medium term prospects of the economy. There are three interrelated challenges in this respect: to reform the health system in order to improve public health of the population at large; adapt and develop higher and technical education; and devise and implement active labour market policies to help displaced workers acquire rapidly a number of basic skills needed in the new economic environment. The latter will be especially relevant for those areas dominated by single industries slated for closure or significant restructuring.

2.3 General Evaluation

Romania has made considerable progress in the creation of a market economy. The reorientation of economic policy since the recent change of government marks a change for the better, but much still needs to be done. While prices have been almost fully liberalised, property rights are not yet fully assured for land, the legal system is still fragile and policy-making on economic issues has not always been coherent. Further efforts to consolidate the legal and administrative framework, and to address persistent macroeconomic imbalances, are required to ensure a stable environment.

Romania would face serious difficulties coping with competitive pressure and market forces within the Union in the medium term. It has recently made progress towards improving the competitive capacity of its economy, notably by addressing major distortions such as low energy prices, accelerating privatisation and beginning to wind up large loss-making state-owned firms. However, much of Romania's industry is obsolete, and agriculture needs to be modernised. The low levels of research and development, and of skills among the workforce also suggest that the economy needs a number of years of sustained structural reform.

3. Ability to Assume the Obligations of Membership

The European Council in Copenhagen included among the criteria for accession “the ability to take on the obligations of membership, including adherence to the aims of political, economic and monetary union”.

In applying for membership on the basis of the Treaty, Romania has accepted without reserve the basic aims of the Union, including its policies and instruments. This chapter examines Romania’s capacity to assume the obligations of membership - that is, the legal and institutional framework, known as the *acquis*, by means of which the Union puts into effect its objectives.

With the development of the Union, the *acquis* has become progressively more onerous, and presents a greater challenge for future accessions than was the case in the past. The ability of Romania to implement the *acquis* will be central to its capacity to function successfully within the Union.

The following sections examine, for each main field of the Union’s activity, the current and prospective situation of Romania. The starting-point of the description and analysis is a brief summary of the *acquis*, with a mention of the provisions of the Europe Agreement and the White Paper, where they are relevant. Finally, for each field of activity there is a brief assessment of Romania’s ability to assume the obligations of membership on a medium-term horizon.

3.1 Internal Market Without Frontiers

Article 7a of the Treaty defines the Union’s internal market as an area without internal frontiers in which the free movement of goods, persons, services and capital is ensured. This internal market, central to the integration process, is based on an open-market economy in which competition and economic and social cohesion must play a full part.

Effective implementation of the liberties enshrined in the Treaty requires not only compliance with such important principles as, for example, non-discrimination or mutual recognition of national regulations - as clarified by Court of Justice rulings - but also concomitant, effective application of a series of common specific provisions. These are designed, in particular, to provide safety, public health, environmental and consumer protection, public confidence in the services sector, appropriately qualified persons to practise certain specialist occupations and, where necessary, introduction or coordination of regulatory and monitoring mechanisms; all systematic checks and inspections necessary to ensure correct application of the rules are carried out on the market, not at frontier crossings.

It is important to incorporate Community legislation into national legislation effectively, but even more important to implement it properly in the field, via the appropriate administrative and judicial structures set up in the Member States and respected by companies. This is an essential precondition for creating the mutual trust indispensable for smooth operation of the internal market.

This chapter must be read in conjunction with, *inter alia*, the chapters on social policy, the environment, consumer protection and sectoral policies.

The Four Freedoms

A step-by-step approach is being taken to absorption of the *acquis e* by the candidate countries:

- The Association Agreement between the Community, its Member States and Romania was signed in 1995 and is being ratified. With regard to the four freedoms and approximation of legislation, the Agreement provides, in particular, for immediate or gradual application of a number of obligations, some of them reciprocal, covering, in particular, freedom of establishment, national treatment, free trade, intellectual property and public procurement.
- The Commission's 1995 White Paper (COM (95) 163 final), guidelines intended, to help the candidate countries prepare for integration into the internal market gives a closer definition of the legislation concerned. It identifies the "key measures" with a direct effect on the free movement of goods, services, capital and persons and outlines the conditions necessary in order to operate the legislation, including the legal and organisational structures. Twenty-three areas of Community activity are examined, dividing the measures into two stages, in order of priority, to provide a work programme for the pre-accession phase. The Technical Assistance and Information Exchange Office (TAIEX) was set up with the objective of providing complementary and focused technical assistance in the areas of legislation covered in the White Paper. A legislative database has recently been established by the Office.
- The candidate countries will have to implement all the *acquis*. The "Action plan for the single market" submitted to the Amsterdam European Council gives details of the priority measures necessary to make the single market work better between the Fifteen in preparation for introduction of the single currency. This will inevitably entail changes to the *acquis*.

General Framework

Whatever their field of activity, undertakings must be able to operate on the basis of common rules. These are important since they shape the general framework within which economies operate and, hence, the general conditions of competition. They include the rules on competition (on undertakings and State aid) and tax measures discussed elsewhere in this opinion, the opening-up of public works, supply and service contracts, harmonisation of the rules on intellectual property (including the European patent), harmonisation of the rules on company law and accountancy, protection of personal data, transfer of proceedings and recognition of judgements (Article 220 conventions).

Descriptive Summary

Public procurement is governed by Ordinance No 12/1993, which describes the procedures applicable to government purchasing and investment.

Intellectual and commercial property is governed by the 1992 law on patents, Law No 16/1996 on semi-conductors, Law No 8/1996 on copyright and related rights and Law No 129/1992 on the protection of designs and models.

Romania will be seeking to accede to the Munich Convention before the end of 1997. As the adjustment of its domestic legislation advances, Romania plans to accede to the relevant WIPO (World Intellectual Property Organisation) conventions. It is a party to the TRIPs (Trade Related Aspects of Intellectual Property Rights) agreements, which will apply to it in full from 1 January 2000.

Company law is governed by Law No 31/1990, as amended in July 1996. Several categories of company exist: general and limited partnerships and public and private limited companies. There are about 500 000 companies. Shares may be transferable or registered, as may bond issues.

The liability of shareholders in a corporation is limited to their investment. The formation and maintenance of capital, including the minimum capital, are covered by the law. Creditors' rights are protected, in particular by the Law No 64/1996 on the reorganisation and winding-up procedure. There is a compulsory register, in which all companies must figure along with key details of their business.

A standard model for company accounts was introduced by Law No 82/1991, an ordinance in 1993 and ordinance 22/1996. Official rules have been issued by the Ministry of Finance. With the prior authorisation of the Ministry of Finance, ministries and official organisations may draw up specific rules for certain branches of industry. There are no rules on the consolidation of accounts. Auditing is covered by Ordinance No 65/1994 on the accounting profession.

Romania has no general legislation on the protection of personal data. A draft law is being prepared. Accession to Council of Europe Convention No 108 is planned for 1999.

Current and Prospective Assessment

Romanian law on public procurement is out of step with the principles of Community law. In general, the law does not provide a sufficient basis for assessing whether the scope of the different directives has been respected, particularly as regards services. Community rules on the water, energy, transport and telecommunications sectors are not covered by Romanian law. Romania applies a blanket national preference for goods and services contracts under 1.5 billion and 7 billion lei respectively. Six ministries are involved in the cumbersome procedures for contracting and ensuring that the rules have been applied: slow and inefficient procedures mean that the rights of plaintiffs cannot be guaranteed. Though some amendments are planned for the purposes of harmonisation with Community directives, no timetable has been presented.

As a result of a major harmonisation effort, intellectual property law is now broadly in line with the 1973 Munich Convention and Community directives.

Some adjustments still have to be made with regard to trademarks, border enforcement and the additional protection certificate required in some fields. Draft laws on the first two aspects were planned for 1996/97, while a draft on the third was scheduled for 1998.

Romanian company law is broadly in line with the First, Second, Third, Eleventh and Twelfth Directives. Further amendments to be made by 1998 will bring Romanian law completely into line with the Community's.

An ambitious work programmes concerning both accounting and auditing has been launched, including amendments to the present regulations as well as new regulations and norms. Most changes are to be introduced during 1997. The planned changes are intended to bring about full conformity with the Accounting Directives, but texts of the draft laws are not yet available. Certain transitional problems are in evidence relating to the practical implementation of the new rules, including a shortage of qualified accountants and auditors, and it seems unlikely that these can be solved in the medium term.

The draft law being prepared on data protection is aimed at bringing Romanian legislation into line with the Community framework directive. It provides in particular for the establishment of an independent supervisory authority to see that the law is enforced. Accession to Council of Europe Convention No 108 is planned for 1999.

In the field of civil law the Convention of Lugano on jurisdiction and the enforcement of judgements in civil and commercial matters is not yet open to Romania. Progress must first be made on the protection of civil interests.

Conclusion

Romania will have to make very intensive efforts to align on Community rules concerning public contracts.

The legislative effort made with regard to intellectual property attests to Romania's desire to conform to the *acquis*. Implementation will, however, have to be watched closely.

Romania's assimilation of the *acquis* in the matter of company law will present no major problems. The information available on the work currently in hand on accounting and auditing does not provide a sufficient basis for a detailed assessment of conformity with the *acquis* or the appreciation of Romania's prospects of achieving this in the medium term.

Harmonisation with Community data protection law has still to take place.

Free Movement of Goods

Free movement of goods can be achieved only by removing measures which restrict trade – not only customs duties and quantitative restrictions but all measures with equivalent, i.e. protectionist, effect, irrespective of whether or not they are specifically aimed at domestic or imported products. Where technical standards are not harmonised, the free movement of goods must be ensured by applying the principle of mutual recognition of national rules and accepting the rule that national specifications should be no more stringent than is required to achieve their legitimate objectives. This rule was established in the *Cassis de Dijon* judgement.

For the purpose of harmonisation, the European Community has developed the “New Approach” which introduces an approach carefully balanced between government and private autonomous bodies and in which European Community legislation and European standards play a distinct complementary role. Thus, instead of imposing technical solutions, European Community legislation is limited to establishing the essential requirements which products must meet. Products manufactured in accordance with European standards are presumed to meet such essential requirements, but European standards are not the only way to prove such conformity. The “New Approach” works in conjunction with the “Global Approach” on product certification which governs the apposition of the “CE Mark” on the product. For other products such as pharmaceuticals, chemicals, motor vehicles, and food products, European Community directives follow the traditional regulatory pattern of providing fully detailed rules.

The free movement of goods also dictates that a number of Community harmonisation measures be transposed into national law. Implementation of health and safety harmonisation rules is particularly important and requires the establishment of appropriate mechanisms and organisations, both for businesses and the authorities.

Two of the “horizontal” directives essential to smooth running of the single market are the Directive on general product safety and the Directive on liability for defective products. The rules on general product safety are covered in the section on consumer protection.

The rules on agricultural products (compliance with veterinary and plant-health standards) are explained in detail in the section on agriculture.

Descriptive Summary

In February 1997 Romania announced the complete liberalisation of prices, breaking with the previous system of administered prices, and effectively liberalised the foreign exchange market. Some basic products (including petroleum products and bread) continue to be regulated, however, to ensure a more gradual transition.

As provided for in the Europe Agreement, exports, which are in some cases subject to regulation (licences, official permits or bans), will be completely liberalised by 1998 at the latest.

Under Law No 21/1996, responsibility for price regulation has been transferred to the Competition Office, which is under the umbrella of the Ministry of Finance.

Concerning legislative alignment, the Government’s legislative timetable was drawn up in 1995. Romania applies national quality standards to imports and has recently (April 1997) accepted the principle of automatically recognising EC labelling. However, certification rules in line with the new principles have yet to be drawn up.

With regard to the structures necessary to apply the *acquis*, in 1992 Romania set up new institutions, including the Romanian Institute for Standardisation (IRS) and the office for Legal Metrology (BRML). The IRS is affiliated to both the European Committee for Standardisation (CEN) and the European Committee for Electrotechnical Standardisation (CENELEC).

Current and Prospective Assessment

The excise system includes an element of discrimination in favour of national products (alcohol, tobacco etc.).

Romania has so far made little progress towards legislative alignment. Some of the legal foundations necessary for introducing EC rules have been laid, though the general framework legislation - on standardisation and conformity assessment - does not satisfy EU principles. The Government's 1995 legislative timetable lacks some of the legislation listed in the White Paper and appears to lack overall consistency.

New draft legislation is supposed to pursue an acceptable degree of compatibility. In the automobile sector, the relevant directives should be in place in 1998. However, implementation may take even longer, and transition periods may be sought regarding the EC emissions directives. The food, chemical and pharmaceutical sectors have seen less progress so far. Overall, the process seems to be moving rather slowly. It also has to be borne in mind that secondary legislation is often required for the implementation of the general legislative framework. Standardisation activity is slow and hampered by the lack of a clear distinction between voluntary and mandatory standards. A certain number of standards in force in Romania are reported to conform to European standards.

Romania has yet to complete the necessary separation between the regulatory, accreditation, standardisation and product certification functions, the latter two of which should be left mainly to the private sector. For example, the IRS is part of the Ministry of Research and performs standardisation, accreditation and product certification functions. Market surveillance should come under ministerial responsibility, but suffers from a lack of coordination, equipment and suitable staff and from the prevailing economic conditions.

Romanian law on civil liability for defective products is not in line with Community provisions; there is currently no evidence of plans to amend the current legislation.

In the areas subject to national rules and not covered by Community harmonisation, there is too little information available to assess whether Community legal principles on the free movement of goods are properly applied in Romania. The reporting procedures which form part of the internal-market machinery are not yet operational and so cannot be used in the pre-accession period. The most important instruments in this connection are: Directive 83/189, requiring governments to report draft national technical standards and regulations; Decision 3052/95 on measures derogating from the principle of the free movement of goods; procedures by which complaints can be submitted to the Commission; and Article 177 of the Treaty, enabling Member States to ask for preliminary rulings from the Court of Justice. It is also hard to assess whether Romania complies with the principle of mutual recognition; more information is required on its national rules, and on administrative practices, which can have an effect on product sales.

Conclusion

After a period in which trade with Romania was not without difficulty, the new approach adopted by the authorities early in 1997 offers hope of improvements, along with a determination to adhere to the timetable laid down in the Europe Agreement for eliminating restrictions on bilateral trade. The Romanian authorities will also have to ensure that their legislation in areas not covered by Community harmonisation is not likely to hinder trade, notably by checking that the measures in force are proportional to the objectives pursued.

Considerable efforts will have to be made before the situation develops to a point warranting the conclusion that Romania can fully and effectively implement the *acquis*.

Free Movement of Capital

The Association Agreement establishes the principle of free movement of capital between Romania and the European Union. This, as far as the obligations of Roumania are concerned applies to direct investment made by companies already established in Romania and as regards branches and agencies of Community companies (as well as the self-employed) gradually during the transitional period

The Europe Agreement provides that the parties shall consult each other with a view to facilitating the movement of capital between the Community and Romania in order to promote the objectives of the Agreement.

The White Paper highlights the link between the free movement of capital and the free movement of services. It suggests a sequence for the liberalisation of capital movements starting with medium- and long-term capital movements and movements linked with commercial transactions to short-term capital.

Descriptive Summary

Romania has one of the lowest levels of foreign direct investment (FDI) in the region. The aggregate total for the period 1986-96 stands at USD 1.4 billion. However, other sources suggest that the amount is higher. This meagre amount can be ascribed to substantial delays in the privatisation of almost all of the secondary and tertiary sectors and an unhelpful legal, regulatory and administrative environment.

The lei is convertible for most current account transactions. The Romanian authorities expect to be able to assume the obligations of Article VIII of the IMF Agreements in the course of 1997. Capital movements (capital transfers and external borrowing) generally require the authorisation of the central bank. The following inward capital movements are exempt from this requirement:

- non-residents' deposits with credit institutions in Romania;
- loans and credits received by residents and guaranteed by the State;
- deposits made or received by banks for their own account.

Under the foreign investment law of 3 May 1991, there are no limits on foreign equity holdings in commercial firms set up in Romania. Foreigners may invest in any sector of the economy, save areas declared to be of national interest for defence or environmental protection reasons. Profits and invested capital may be repatriated in convertible currencies.

Romania's rules on capital movements are generally in line with the relevant provisions of the Europe Agreement.

Current and Prospective Assessment

There is a lot of legislation regulating foreign investment and business activities. Law No 35/1991 on foreign investment was supplemented by a new foreign investment law in May 1997. The purpose of the new law is to improve conditions for the repatriation of invested funds, but above all to accord tax incentives to major investors (over ECU4 million) and purchasers of shares in privatised firms. Compulsory registration with the Romanian Development Agency, which had been a barrier to establishment, has now been abolished. Romanian subsidiaries of foreign firms now have clear access to the land necessary for the exercise of their activities, though this is not the case for branches and offices.

Some problems will have to be resolved before an efficient and secure capital market is established, notably the transfer of the management of all types of intangible assets to independent registers, the organisation of transparent company reporting and the calculation of the assets of the old Private Ownership Funds.

Until recently foreign investors did not enjoy free access to the securities market. This gap has been plugged by the new foreign investment law, which makes specific provision for "portfolio investors", i.e. investors on stock exchanges or on the secondary market for shares in privatised companies (Rasdaq). The transfer of capital gains and dividends remains subject to prior verification of the foreign currency investment.

Conclusion

The trend in Romanian law is towards opening up the market to foreign direct investment. The very low level of investment is mainly attributable to administrative practices (be it in the area of trade, customs, taxation etc.), which are often cited by investors and which substantially limit legal certainty and transactions. A significant improvement in the administrative and judicial framework is a prerequisite for increasing investment.

Romania has made significant progress in the area of financial markets in the past two years. There is no doubt that an effective market will be established in the medium term, the only risks being those inherent in any emerging market and the lack of experience of the brand-new supervisory institutions.

Free movement of capital has been established on paper, but constraints on the development of a competitive market must be eliminated in practice. Romania has introduced limited liberalisation of capital movements. The liberalised transactions, notably direct investment, concern inward capital flows only. Provided that efforts to remedy the structural weaknesses of the financial system and to stabilise and reform the economy continue, Romania should be able to assimilate the *acquis* in the area of capital movements in the medium term.

Free Movement of Services

The basis of the free movement of services is the prohibition of discrimination, in particular on grounds of nationality, and rules on the alignment of divergent national legislation. These rules often concern both the right of establishment, which comes under the heading of the free movement of persons, and the freedom to provide services. Their implementation implies the establishment of administrative structures (banking control boards, audio-visual control authorities, regulatory bodies) and greater cooperation between Member States in the area of enforcement (mutual recognition arrangements).

A substantial amount of the legislation applicable to the free movement of services relates to financial services. It also concerns the problems relating to the opening-up of national markets in the sectors traditionally dominated by monopolies, e.g. telecommunications and, to a certain extent, energy and transport. These subjects will be dealt with in the sections of the Opinion specifically referring to them.

Descriptive Summary

Modernisation of the banking sector began in 1991, when the Romanian National Bank (BNR) was given the usual responsibilities of a central bank.

The banking sector continues to be dominated by five public-sector institutions, chiefly because they have branches throughout the country. They hold over 70% of the market. Private banks therefore remain small in terms of market share, tending to specialise in such areas as international trade, investment banking, cooperative banks etc. The main state-owned banks set up under Law No 15/1990 reflect the old set-up. Their capital is held by the State Ownership Fund (70%) and the five former Private Ownership Funds (6% each). Romania has also retained the Savings Bank (CEC), which is under the responsibility of the Minister of Finance. This bank has a special legal status as a specialised household institution.

Despite clear warning signs, the present supervisory system has been unable to prevent the collapse of two private banks (accounting for over 10% of assets) with losses of about ECU 400 million, made good by the Treasury. Other banks, among them the Banca Agricola, a state-owned bank accounting for 30% of bank assets, are under close supervision because of the risks they pose.

The banks are generally overstaffed, have inadequate reporting systems and carry large portfolios of doubtful debts (most of them in connection with loss-making state-owned enterprises in such sectors as steel, heavy machinery, petrochemicals etc.).

Until the end of 1996 the state-owned banks had a *de facto* monopoly on the foreign exchange market: of the four licences issued by the BNR, three were held by state-owned banks. At the beginning of 1997, the Government decided to liberalise the foreign exchange market completely. Banks are still not listed on the stock market.

Prudential supervision is exercised by a department of the BNR.

The Government decided to set up a deposit guarantee system in August 1996 (Government Ordinance No 39/1996). This is a public-law fund, which guarantees the deposits of natural persons, residents or otherwise, up to a limit of 10 million lei (ECU 1100) a head, regardless of the currency.

Securities markets are a recent development. They are expanding rapidly. The Bucharest stock exchange was inaugurated in June 1995. The number of companies quoted (about 40 in May 1997) is increasing, with strong demand from investment companies (prices are now listed daily). A new over-the-counter market, Rasdaq, set up in September 1996 to trade in the intangible assets of the 4000 companies privatised under the mass privatisation programme, is expanding rapidly.

Exchanges are supervised by the National Securities Commission (CNVM) established by Law No 52/1994, which has regulatory and supervisory powers and is responsible for licensing brokers and exchanges (registers of shareholders and the National Settlement and Clearing Company set up at the same time as Rasdaq).

Under Law No 133/1996, the five Private Ownership Funds set up in 1991 as instruments for the transition to privatisation were converted into private investment companies with effect from 1 November 1996.

The insurance sector is governed by Law No 47/1991 on the establishment, organisation and operation of insurance companies and Law No 136/1995 on insurance and reinsurance. The sector is supervised by the Office for the Supervision of Insurance and Reinsurance Activities (OSAAR) set up by Law No 47/1991 [which has a staff of 14].

Though there is no longer a legal monopoly, there is a *de facto* monopoly. The market is dominated by 8 companies which, in 1995, accounted for 92% of the premiums paid. The lion's share of the market is held by three state-controlled companies.

Current and Prospective Assessment

There has been no privatisation in the banking sector since 1989. There have been several privatisation attempts, all of them blocked by Parliament. A new bill to privatise the banks was adopted by Parliament in April 1997: it permits shares to be sold or new shares issued to persons and private companies, whether Romanian or foreign. The passage of the bill represents a significant breakthrough, though certain provisions pose problems (the provision for the State Ownership Fund to retain 10% of the capital or a golden share permitting it to oppose decisions deemed "contrary to the national interest", the determination by the government of the "optimal share structure", the limits on the maximum shareholding, the right to pawn shares etc.). All these restrictions have the potential to hinder much-needed restructuring in the sector. There is, however, no restriction on the right of establishment of foreign banks.

Prudential requirements (banking Law No 33/1991 and rules laid down by the BNR) are generally in line with the first Banking Directive and the directives on banks' own funds and solvency. Romania is somewhat behind schedule for the introduction of the Second Banking Directive and the measures concerning (i) money laundering, (ii) the supervision of banks on a consolidated basis, (iii) the limiting of credit establishments' credit risks and (iv) the supervision of the exposure of credit establishments.

Transposition of the directive on large exposure and the directive on annual and consolidated accounts is in the pipeline. Recovering debts from defaulting debtors is rendered very difficult by poor application of the bankruptcy law.

The Romanian Government has made the passage of the law to prevent the financial system from being used for money laundering a priority for 1997. This draft law is consistent with Community legislation on the matter.

Legislation in the securities sector has been partly harmonised by Law No 52/1994 on securities and securities exchanges. With a view to completing harmonisation, the Government proposes to amend this law in the course of 1997: the draft law is part of the legislative programme for the implementation of the reform programme. Legislation on investment funds has also been harmonised by Government Ordinance No 24/1993 on the creation and operation of public investment funds run by investment companies acting as financial intermediaries (approved by Law No 83/1994).

Information provided by Romania shows the country to have made very little progress towards introducing insurance legislation consistent with the basic Community provisions (Stage I measures). For instance, the authorities impose the same solvency margin for life and non-life companies, which is in principle inconsistent with Community legislation and disadvantages life companies.

Insurance business in Romania is currently governed by Law No 47/1991 on the creation, organisation and operation of commercial insurance companies. The provisions of this law are completely in line with Directive 72/166/EEC concerning the green card system and Directive 90/332/EEC plugging gaps in respect of compulsory for the use of vehicles inside the Community. In 1997 the Romanian Government plans to adopt a draft law concerning supervision of insurance companies.

The market access of foreign companies is limited to insurance policies for foreigners and reinsurance business. They may only operate in Romania via the agency of a joint venture set up under Romanian law with a Romanian partner. A new law pending should rectify matters.

Conclusion

The key decisions for the effective restructuring of the banking sector have been taken. Respect for prudential rules and, above all, the National Bank's supervisory capacities must, however, be reinforced to guarantee the sector's soundness.

The central bank is still not totally independent of the government: it continues to function as the government's banker, contributing significantly to the funding of the budget deficit.

The banking sector remains very fragile. The law being drafted must help consolidate and reform the sector, and the privatisation of the state-owned banks - for which there is still no firm timetable - must increase transparency and competitiveness. As this is bound to be a lengthy process, there is no prospect of integrating the Romanian banking system into the internal market in the medium term.

The securities market is still embryonic. Supervision is currently inadequate and there are grounds for doubting its efficiency. The continuation and acceleration of the mass privatisation programme is nevertheless going to make this market grow, which makes the adoption and rapid application of the new stock-exchange and securities law all the more necessary.

In the field of insurance, Romania seems to have a long way to go in terms both of the adoption and implementation of legislation and of the elimination of barriers to access to its market.

Free Movement of Persons

The free movement of persons encompasses two concepts with different logical implications in the Treaty. On the one hand, Article 7a in Part One of the Treaty on 'Principles' mentions the concept in connection with the establishment of the internal market and implies that persons are not to be subject to controls when crossing the internal frontiers between the Member States. On the other hand, Article 8a in Part Two of the Treaty on 'Citizenship of the Union' gives every citizen of the Union the individual right to move and reside freely within the territory of the Member States, subject to certain conditions. The abolition of frontier checks must apply to all persons, whatever their nationality, if Article 7a is not to be meaningless. While the rights deriving from Article 8a apply in all Member States, those stemming from Article 7a have never been fully applied throughout the Union.

(a) Free Movement of Union Citizens, Freedom of Establishment and Mutual Recognition of Diplomas and Qualifications

The Europe Agreement provides for the non-discriminatory treatment of workers who are legally employed (as well as their families). It covers the possibility of cumulating or transferring social security rights, and encourages Member States to conclude bilateral agreements with Romania on access to labour markets. During the second stage of the transition period, the Association Council will examine ways of further improving the movement of workers.

The White Paper considers the legislative requirements for the harmonious development of the labour market, while simultaneously preventing distortions of competition.

Free movement of labour is one of the fundamental freedoms enshrined in the Treaty; freedom to practise certain professions (e.g. in the legal and health fields) may, however, be subject to certain conditions, such as qualifications. Depending on the case, these may be dealt with through coordination or by applying the principle of mutual recognition. Freedom of establishment is also guaranteed under the Treaty and covers the economic activities of self-employed natural persons and companies.

The free choice of the country of residence may thus be subject to minimum conditions as to resources and health insurance where the person does not exercise a profession in the country concerned.

Descriptive Summary

An office for the recognition of education, diplomas and vocational training was set up in 1996 under the Ministry of Education. Some draft laws are scheduled for 1997.

Current and Prospective Assessment

There is not enough information available on the content and duration of studies to permit conclusions to be drawn as to the equivalence of diplomas and vocational qualifications. The *acquis* has not been transposed (not even on paper). The situation is exacerbated by the fact that institutions have not been set up to certify diplomas and implement the *acquis*.

Conclusion

Without a major effort to harmonise legislation and set up and strengthen implementing structures in this field, it will not be possible to achieve recognition for Romanian diplomas and qualifications in the Community in the medium term.

(b) Abolition of Checks on Persons at Internal Frontiers

The free movement of persons within the meaning of Article 7a of the EC Treaty, i.e. the abolition of checks on all persons, whatever their nationality, at the internal frontiers has not yet been fully implemented in the Union. Doing away with checks on persons is conditional on the introduction of a large number of accompanying measures, some of which have yet to be approved and implemented by the Member States (see separate section on Justice and Home Affairs). However, that objective has been achieved by a limited number of Member States in accordance with the Schengen convention (seven Member States already apply it and another six are working towards implementation).

The draft Treaty aims to make that objective easier to achieve within the Union by including a new chapter on the establishment of an “area of freedom, security and justice” and incorporating the Schengen *acquis* into the EU.

General Evaluation

1. Romania's progress in the implementation of legislation relating to the White Paper is summarised in the annex. This table shows that Romania had, by its own reckoning, transposed 426 of the 899 directives or regulations listed in the White Paper by 30 June 1997. These figures concern legislation that Romania considers either to have been transposed or checked for compatibility with Community rules. This report does not address the compatibility of legislation, the Commission being unable to express an informed opinion on the matter at this stage.
2. In most of the key areas of the internal market, the *acquis* has been very sketchily incorporated into Romanian law, save in the area of industrial and intellectual property. The scale of the problems calls for a major and sustained effort both to approximate legislation and to set up the structures for its implementation. The top priority must be the complete restructuring of the financial sector to conserve the necessary level of confidence on the part of the public and investors.

3. In general, the shortcomings of Romania's administration pose a major problem, compromising both the pace and the quality of legislative approximation. The various departments central to the implementation of internal market legislation are currently incapable of coping with the task. Similar reservations must be expressed with regard to the capacity of economic operators, and SMEs in particular, to comply with the legislation.
4. Checks at the internal frontiers of the Union can only be abolished once sufficient legislative harmonisation has been achieved. This calls for mutual confidence, based in particular on sound administration (e.g. the importance of safety checks on some products at the place of departure). As far as goods are concerned, the completion of the internal market on 1 January 1993 was only achieved by doing away with all the formalities and checks performed by the Member States at the internal borders of the Union. In particular these checks covered particularly technical points (product safety), veterinary, animal-health and plant-health matters, economic and commercial matters (e.g. prevention of counterfeiting of goods), security (weapons, etc.) and environmental aspects (waste, etc.). In most cases, the abolition of checks was only made possible by the adoption and application of Community measures harmonising the rules on the movement and the placing of goods on the market (particularly as regards product safety) and, where applicable, by shifting the place where controls and formalities within the Member States or on their markets are conducted (in particular as regards VAT and excise duties, veterinary and plant-health checks, and the collection of statistics).

A section of Romania's present borders will become the Union's external frontier and this means border checks will need to be stepped up (see separate section on Customs).

In view of the overall assessment that can be made of progress achieved to date and the rate at which work is advancing in the various areas concerned, it is difficult at present to put a timescale on Romania's ability to take over and implement all the instruments required to abolish internal border checks and to transfer those checks to the Union's external frontier.

5. Romania has not yet taken up the key elements of the *acquis* concerning the internal market, other than in the matter of industrial and intellectual property. A considerable effort will have to be made if it is to adopt and implement the Single Market legislation and equip itself with the machinery needed for the application of that legislation. As matters stand today, there is no way that Romania will be able to participate fully in the internal market in the medium term.

Competition

European Community competition policy derives from Article 3(g) of the Treaty providing that the Community shall have *a system ensuring that competition in the internal market is not distorted*. The main areas of application are anti-trust and state aid.

The Europe Agreement provides for a competition regime to be applied in trade relations between the Community and Romania based on the criteria of articles 85 and 86 of the EEC Treaty (agreements between undertakings/abuses of dominant position) and in article 92 (state aid) and for implementing rules in these fields to be adopted within three years of the entry into force of the Agreement. Furthermore it provides that Romania will make its legislation compatible with that of the Community in the field of competition. The White Paper refers to the progressive application of the above provisions and those of the Merger Regulation (4064/89) and of Articles 37 and 90 (Monopolies and Special Rights).

Descriptive Summary

The recent Law No 21/1996 on competition is based on the principles of Community law. It was adopted by Parliament in February 1996 and entered into force in February 1997. It covers cartels, abuse of a dominant position and concentrations.

The law provides for the establishment of two bodies: a Competition Council with investigative and decision-making powers and, under the authority of the Government, a Competition Office. Set up in 1996, these two bodies have been given the staff and the financial resources of their predecessor (MOF).

Sectors traditionally controlled by monopolies, and especially telecommunications, are gradually being liberalised. Liberalisation is, however, less extensive in air transport, postal services and energy sectors.

In the matter of exclusive rights, Romania maintains exclusive arrangements for the granting of mining concessions. In practice such arrangements have also been introduced for 83 "Régies Autonomes" considered to be of strategic importance (arms, energy, rail transport etc.). Manufacturing monopolies have been accorded in some branches of industry (tobacco, cigarettes, distilling, medicines containing narcotics etc.). They generally cover the production and import of the products concerned. In some branches licences may be issued to national operators.

The information available on state aid is incomplete and does not guarantee the transparency required by Community rules. Procedures for the supervision of state aid have still to be put in place. Export subsidies and operating subsidies for ailing enterprises have also been identified.

Current and Prospective Assessment

Legislation on competition, cartels, abuse of a dominant position and concentration are generally developing in line with Community legislation. The supervisory institutions would appear in theory to have sufficient autonomy to operate independently. Some overlapping between their areas of competence could, however, bring them into conflict.

Romania justifies the maintenance of state monopolies in sectors that should be open to private enterprise on the grounds of their "strategic" or public interest (alcohol, tobacco, forestry etc.). Licences, which can only be issued to Romanian operators, discriminate against non-nationals and are incompatible with the Europe Agreement.

The Competition Office maintains extensive powers in the area of pricing, which should be limited to services and products of public utility.

Romania has yet to satisfy the criteria for a credible system for the control of state aid. The legislative framework has still to be established. The granting of aid is not yet sufficiently transparent and it is essential that an inventory of national, regional and local aid and any other publicly funded measures be drawn up in short order.

It should be added, moreover, that certain aid measures seem to be contingent upon export performance, which is clearly not compatible with the Europe Agreement and an important part of state aid seems to be granted in such indirect forms as tax relief, debt write-offs and tax arrears. These aid measures constitute operating aid, which is allowed only under very strict conditions. Due to the lack of transparency, it is as yet unclear whether the conditions for granting operating aid are satisfied.

In addition to the adoption of legislation sufficiently approximate to that of the EU, credible enforcement of competition law requires the establishment of properly functioning anti-trust and state aid monitoring authorities. It also requires the judicial system, the public administration and the relevant economic operators to have a sufficient understanding of competition law and policy.

Conclusion

Notable progress has been made towards approximation of legislation in the field of anti-trust. What matters now is the enforcement of the law, which makes further substantial training for the two competition authorities indispensable.

As regards state aid, not much progress has been achieved so far and a considerable effort will be necessary to fulfil the requirements in the field of state aid control over the medium term, in particular as regards the establishment of transparency through a credible aid inventory in accordance with Community practice and the adoption of the necessary rules for credible monitoring of state aid.

One of the immediate challenges in the field of competition policy is to ensure that the competition rules apply to the so-called “Régies Autonomes”, which seem to be excluded from the normal application of the rules on competition, including state aid.

In some sectors, moreover, there appear to be exclusive or special rights which are not compatible with the Community *acquis*. These problems should be addressed in the near future.

3.2 Innovation

Information Society

Present Situation

The economic and social potential benefits from the combination of information technology and telecommunications are particularly great in Romania. These possibilities were neglected before 1989 although basic education received a high priority. As a result the demand for personal computers has been developing much more rapidly than what would have resulted from normal growth. If Internet connections follow the same patterns of growth, the telecommunications infrastructure, which is at present about 40 years behind the EU average, will act as a brake on information society (IS) development. At the beginning of 1997 the number of host computers on the Internet was estimated at 0.4 per 1000 inhabitants and the total number of PCs in the country at 65 000, with a growth rate of about 17%. In May 1997 RoEduNet, a public network for higher education, launched its high-speed connection over a VSAT link.

The Government created at the beginning 1997 a National Commission for Informatics under the Secretary General of the Government, which elaborated a "Strategy to prepare the accession of Romania to the European Union in the field of information technology". The aim is to promote an architecture including:

- a national backbone network,
- documents management in administration (a tender has been launched for this purpose),
- kernel of national systems (registers and nomenclatures),
- legislative framework for information (including laws on protection of personal data and privacy based on EC legislation),
- promotion of software industries.

Conclusion

As liberalisation has been so far slow and per capita GDP remains among the lowest in the region, the Information Society potentialities may be realised later than in the average CEECs, unless significant improvements are made.

Education, Training and Youth

Articles 126 and 127 of the EC Treaty provide that the Community shall contribute to the development of quality education and implement a vocational training policy aimed at promoting the European dimension in education and at enhancing industrial adaptation and the responsiveness of the labour market through vocational training policies.

The Europe Agreement and its additional protocol provide for cooperation in these areas notably through participation in the Framework Programme. . The White Paper includes no measures in this field.

Descriptive Summary

Romania's spending on education amounts to 3.4 % of GDP. Government expenditure on education is around 9.9 %. 75% of the Ministry of Education's budget is spent on salaries, 5% on capital repairs and investments and the rest on operating expenses and core textbooks.

There are 3 600 000 pupils, 350 000 students, 280 000 teachers (22 600 in higher education) in Romania. In the Romanian pre-university system there are over 29 000 schools, among which there are 1 300 lycées, 800 vocational, complementary or apprentice schools and 1 300 special post-lycée and technical schools. In the university system, there are 325 units made up of 63 public institutions and 262 private institutions.

The institutional bodies operating in these fields are: the Ministry of Education, the Ministry of Labour, together with the Social Partners, the National Committee of Romania for Unesco, the Institute for Educational Sciences, the universities and other interested parties (social partners, undertakings).

An ambitious reform agenda has been set up for all levels of education (basic, secondary, vocational and higher). The education law promulgated in July 1995 is a progressive law in line with EU standards.

The Tempus programme has contributed to the achievement of the goals of higher education reform and created the basis for cooperation with the EU higher education institutions.

Current and Prospective Assessment

The Government is committed and convinced of the necessity to reform its educational system to face the new needs of democratic society and a market economy and to upgrade the quality of the system to EU standards.

The main problem facing reform is the paucity of government funding allocated to the educational sector for upgrading and maintaining the educational infrastructure, purchasing educational materials and equipment and paying attractive salaries to the teaching staff.

Other major risks that may affect the success of the reform are the weak institutional capacity of the Ministry of Education to implement the reform and resistance to the changes at the national and local level.

Romania will participate in the Community Programmes Socrates, Leonardo and Youth for Europe from 1997, and this will contribute further to the preparation of Romania for integration.

Conclusion

In the perspective of accession, no major problems should be expected in these fields.

Research and Technological Development

Research and technological development activities at Community level, as provided for by the Treaty and in the Framework Programme, are aimed at improving the competitiveness of European industry, the quality of life, and supporting sustainable development, environmental protection, and other common policies.

The Europe Agreement and its additional Protocol provide for cooperation in these areas, notably through participation in the Framework Programme. The White Paper includes no direct measures in this field.

Descriptive Summary

Under the supervision of the Ministry of Research and Technology, activities in this field are performed by the following bodies: universities, research units dependent on Ministries, institutes belonging to the Academies (Romanian Academy, Academy of Agriculture and Forestry, Academy of Medical Sciences).

Total expenditure is currently 0.68% of GDP; the target figure for the year 2000 is 1%.

Main Government priorities are:

- preservation of the national potential taking into account the actual needs of the country
- restructuring and integration into the system of the European Union
- conformity with the transition to the market economy

Regular cooperation with the European Community started in 1992 with the 3rd Research and Technology Development Framework Programme. So far, cooperation has mainly been concentrated on COPERNICUS (Specific Programme for Cooperation with CEECs and NIS), with participation in the 4th Framework Programme remaining rather limited. Romania is a member of COST (European cooperation in the field of scientific and technical research) and EUREKA (European Research Coordination Agency).

A wide-ranging national programme on “Horizon 2000” has recently been adopted and a special fund created. To be managed by the National Agency for Technology Transfer and Innovation, the fund is intended for industries and small and medium-sized enterprises.

The statistics in this field are not yet compatible with OECD standards.

Current and Prospective Assessment

Since the creation of the Ministry of Research and Technology in 1992, strong efforts have been made to rationalise and modernise the overall structures within a state which is still strongly centralised, and where private initiative remains weak and uncertain. These measures, accompanied by a drastic reduction in the total number of researchers, have given positive results; nevertheless the Romanian system is still heavily influenced by a high concentration of resources in the public sector and poor demand by industry (private and public) for research output.

Bilateral and multilateral cooperation (in particular with the European Union) shows that the country's scientists and scientific structures qualify for international partnership. However, unless drastic economic reforms are undertaken the structures will remain dependent on government decisions and financial support. Consequently, the competitiveness of the overall system will remain weak and will not allow Romanian scientists to participate fully in international cooperation activities. It is therefore necessary to continue support for initiatives aimed at rationalising the system, and upgrading infrastructure, equipment and the scientific profession.

Conclusion

Making the Romanian research and technological development system efficient and competitive at international level will need greater efforts. Nevertheless, in the perspective of accession, no major problems should be expected in this field.

Telecommunications

The objectives of EC telecommunications policy are the elimination of obstacles to the effective operation of the Single Market in telecommunications equipment, services and networks, the opening of foreign markets to EU companies and the achievement of universally available modern services for EU residents and businesses. These are achieved through harmonisation of the standards and conditions for service offerings the liberalisation of the markets for terminals, services and networks and the adoption of necessary regulatory instruments. The Directives and policies needed to achieve this have now been established, but the liberalisation of public voice telephony and operation of related infrastructure will be deferred for a year or two after 1998 in certain member states.

The Europe Agreement provides for cooperation aimed at enhancing standards and practices towards EC levels in telecommunication and postal policies, standardisation, regulatory approaches and the modernisation of infrastructure. The White Paper focuses on the approximation of regulation, networks and services, followed by further steps ensuring gradual sector liberalisation.

Descriptive Summary

In the late 1980s Romania had a poorly developed network which comprised obsolete electro-mechanical equipment and, in most rural areas, only manual switches. The telephone penetration in 1991 was 10.8 which increase to 13.9% in January 1997 (expected to rise to 30% in 2005). The average waiting time for a telephone connection is 4.8 years. The regulatory authority is the Ministry of Communications from which the operator, Rom Telecom, is ostensibly separated. A new Telecommunications Law was adopted in June 1996 which will complete the institutional framework by a separate regulatory body, the General Inspectorate of Communications, responsible for the application of postal and telecommunications regulations.

Current and Prospective Assessment

Degree of Liberalisation

According to the commitments at the WTO negotiations in 1997, the Government will abolish the exclusive rights of Rom Telecom for the operation of the fixed network and the provision of voice telephony on 1 January 2000. In addition to the analogue mobile network, two networks for digital mobile telephony (GSM) were licensed at the end of 1996. The license for another digital mobile network (DCS 1800 standard) was awarded to Rom Telecom in June 1997. Twenty-five paging operators as well as two data transmission operators have been licensed. Furthermore, there are 8,500 VSAT networks with 160,000 subscribers. After the year 2002, concessions for local telecommunications services in rural areas are planned. Since March 1997 the use of CATV networks for the provision of data transmission services is allowed.

During 1997, the Government has awarded a set of measures defining the gradual change of Rom Telecom's status towards a more commercially oriented enterprise. A strategy for partial privatisation has been announced earlier in 1997 and an alliance with a strategic partner is planned for 1998.

Approximation to EC law

Before 1996, part of the sector had partially been adapted to the *acquis communautaire* by an opening of segments of the market by ministerial decrees and licenses, e.g., in the field of data transmission, VSAT services and analogue mobile telephony. Other decrees have implemented certain harmonisation principles like Open Network Provision for Leased Lines.

A new Telecommunications Law, elaborated with the advice of the European Commission and in line with EC legislation, was adopted in June 1996 which will introduce a regulatory authority to become in 1998 a fully-fledged National Regulatory Agency.

The ownership supervision in relation to Rom Telecom will be transferred from the Ministry of Communications to the State Property Fund, thereby separating regulatory and operational functions within the Government umbrella. Substantial measures must be taken to implement the law, e.g., licensing, universal service and interconnection regulation.

A draft law on the use of the radio frequency spectrum is expected to be adopted in 1998 and would create a framework for a more transparent and non-discriminatory procedure for allocation and management of frequencies.

The administrative capacity necessary for issuing new regulation to adapt to the *acquis* and to implement the new legislation, in particular to monitor fair competition, seems to be insufficient. However, it can be expected that the new regulatory authority will improve the ability to cope with the approximation requirements.

Infrastructure

The long-term policy objectives are to complete network digitisation by 2005 and to complete the national backbone fibre optic cable network. At the beginning of 1997, 3.000 kilometres interconnecting the main regional centres had been installed and the extension of the network to 7.000 kilometres is underway. In 1998, ISDN services will be implemented. The digital switching equipment is produced locally at about 200,000 lines per year, by joint ventures with Siemens and Alcatel.

From 1991 to 1997, the rate of telephone penetration increased from 10.8 to 13.9 lines per 100 inhabitants. It is planned to reach 28 lines per 100 inhabitants by the end of the year 2005 (compared to an average of 44 lines per 100 inhabitants presently in Ireland-Portugal-Greece). The network digitisation is progressing reasonably well and reached 28% by the end of 1996 (compared to 62.4% as an average in Ireland-Portugal-Greece). The Government plans to digitise the network completely by 2005. With only 1.1% of GDP devoted to telecommunications, investment in the sector in 1995 and 1996 was small. The number of lines to be installed in 1997 is expected to increase three times, which implies a substantial investment. The number of subscribers for analogue mobile telephony services at the end of 1996 was about 20,000 equivalent to a penetration rate of 1.2 lines per 100 inhabitants. Digital mobile services (GSM) launched in April and June 1997, immediately raised a strong public interest with more than 30,000 subscribers in a few weeks. About 2,000,000 CATV subscribers are connected (several hundred network operators; 80% of the territory is covered).

There is a participation of foreign companies in Telefonica Romania for the operation of analogue mobile telephony (59.9% Telefonica Spain, 19.9% for both Rom Telecom and Radio Comunicatii), in the data transmission operator Global One Romania (Global One 50.3%, Rom Telecom 49.5%) and in the two GSM network operators MOBILROM (France Telecom 51%, Romanian companies 41%) and MOBIFON (Telesystems, Canada 39.9%, Airtouch 10%, Romanian companies 50.1%).

Competitiveness of the Sector

In 1995 there were 17.9 telecommunications employees per 1000 lines (the average is about 6.2 in Ireland-Portugal-Greece). In 1996 unsatisfied demands for a telephone line stood at a high level and the average waiting time was 4.8 years. The infrastructure is particularly lacking in rural areas. The price of a standard line for business communications (ECU 112) is among the lowest in the region. Revenue per line (about ECU 90 in 1995) is also among the lowest in the region and is not sufficient to ensure that Rom Telecom can increase its investments without a substantial support from outside. Yet tariff rebalancing started in 1997.

Conclusion

Romania would have some difficulty in adopting the EC model of telecommunications liberalisation because of slow sector development and delays in liberalisation. With the implementation of the new legislation during the next few years, Romania can be expected to fully achieve the approximation to EU regulation in the medium term. The competitiveness of the sector will crucially depend on the acceleration of the modernisation programme for networks and services, on the increase in foreign investment, as well as on more market-oriented and flexible management of the public network operator.

Audio-visual

The audio-visual *acquis* aims, in the context of the internal market, for the provision and free movement of audio-visual services within the EU as well as the promotion of the European programme industry. The Television Without Frontiers Directive, which is applicable to all broadcasters regardless of the modes of transmission (terrestrial, satellite, cable) or their private or public nature, contains this *acquis*, setting down basic rules concerning cross-border broadcasting. The main points are: to ensure the free movement of television broadcasts throughout the Member States; to promote the production and distribution of European audio-visual works (by laying down a minimum proportion of broadcasting time for European works and those by independent producers); to set basic standards in the field of television advertising; to provide for the protection of minors and to allow for the right of reply.

The Europe Agreement provides for cooperation in the promotion and modernisation of the audio-visual industry, and the harmonisation of regulatory aspects of audio-visual policy.

The Television Without Frontiers Directives is a Stage I measure in the White Paper.

Descriptive Summary

The legal framework for the audio-visual sector is determined by the Act on Radio and Television Broadcasting. A National Audio-visual Council (NAC) was established as an independent regulatory body in July 1992.

The public service broadcaster is Romanian Television, although many private national and local companies were set up during the 1990s; ProTV, a private commercial national channel, is currently (early 1997) the leading television broadcaster. Cable television has an important share of the market.

The State's monopoly over film production was ended in 1990 with the setting up of the independent National Film Centre (CNC) which is charged with producing and distributing films. A number of private film production companies now operate in Romania. The State sector, under the Ministry of Culture, continues to produce films, but funding has been drastically reduced. Film distribution is carried out by the State monopoly RADEF-Romaniafilm. No foreign companies are directly involved in the film distribution sector.

Current and Prospective Assessment

The audio-visual sector in Romania is attempting to re-establish itself after major upheavals in recent years, and is characterised by rapid growth and constant change. Its ability properly to adhere to the *acquis* presupposes an upgrading of the capacity of the programme-making industry to meet the important challenges of an adapted regulatory framework.

Romanian audio-visual legislation is not fully compatible with the Television Without Frontiers Directive; numerous deficiencies remain, notably on central questions such as freedom of reception, the promotion of European works (although an amendment is in preparation), independent producers and the contents of advertising.

Amendments to the audio-visual legislation have been prepared and are due to be discussed in parliament in late 1997. The draft amendments are largely in line with the audio-visual *acquis* and are expected to be adopted sometime in 1998.

Conclusion

Provided that necessary structural adaptations of the industry are made, sustained efforts as regards legislative changes will have to be followed through in order for Romania to meet EU requirements in the audio-visual sector in the medium term.

3.3 Economic and Fiscal Affairs

Economic and Monetary Union

By the time of Romania's accession, the third stage of EMU will have commenced. This will mark important changes for all Member States, including those that do not participate in the euro area. All Member states, including the new ones, will participate fully in the economic and monetary union. Their economic policies will be a matter of common concern and they will be involved in the coordination of economic policies (national convergence programmes, broad economic guidelines, multilateral surveillance, excessive deficit procedure). They will be required to respect the stability and growth pact, to renounce any direct central bank financing of the public sector deficit and privileged access of public authorities to financial institutions, and to have completed the liberalisation of capital movements.

Accession means closer monetary and exchange rate cooperation with the European Union. This will require strengthening structural reforms in the area of monetary and exchange rate policies. Member States not participating in the euro area will be able to conduct an autonomous monetary policy and participate in the European System of Central Banks (ESCB) on a restricted basis. Their central banks have to be independent and have price stability as their primary objective. Monetary policy has to be conducted with market-based instruments and has to be "efficient" in transmitting its impulses to the real economy. Therefore, reforms need to be pursued to tackle factors that hinder the efficiency of monetary policy, such as the lack of competition in the banking sector, the lack of development of financial markets and the problem of "bad loans" in the banking sector. Finally all Member States shall treat their exchange rate policy as a matter of common interest and be in a position to stabilise their exchange rates in a mechanism yet to be decided.

As membership of the European Union implies acceptance of the goal of EMU, the convergence criteria will have to be fulfilled by Romania, although not necessarily on accession. While the fulfilment of the convergence criteria is not a precondition for EU membership, they remain key points of reference for stability oriented macroeconomic policies, and must in time be fulfilled by new member states on a permanent basis. Hence the successful conclusion of systematic transformation and market oriented structural reforms is essential. Romania's economic situation and progress has already been analysed in preceding chapters of this Opinion.

Current and Prospective Assessment

Formally, the Romania's central bank is relatively independent from the government, both in the Governor's appointment procedure and in the conduct of monetary policy. The statutory objective of the central bank is the stability of the domestic currency, but this objective has not always been interpreted as price stability. The Law on the Central Bank is still not compatible with the Treaty provision which prohibits budget deficit financing. Furthermore, in the past, the Romanian central bank has not respected the provisions in the Law concerning the limits on the amount of financing of the budget deficit. The government elected in November 1996 has pledged to tighten monetary policy, which implies that no more central bank budget deficit financing should be expected for the time being.

Monetary policy has not always been directed towards price stability. In particular, after three years of declining inflation, the inflation rate increased again in 1996. This was caused by the substantial budget deficit (motivated by the November elections) financing and the commercial bank refinancing activity of the central bank. The central bank has, moreover, extended cheap loans to whole inefficient sectors of the economy through "specialised" banks. The new government seems to have embraced a tighter monetary and fiscal policy strategy. However, the efficiency of monetary policy is hindered by all the factors that are common to a slowly restructuring economy. The banking sector is still dominated by state-owned banks and it is highly segmented. Financial markets are still in their infancy and the central bank lacks any significant experience in the use of market-based instruments of monetary policy. Finally, the recently approved bankruptcy law is still difficult to enforce and bad loans are a substantial problem.

Since 1991, the Romanian exchange rate regime has formally been a free float. Since early 1994 the Romanian central bank has extensively intervened on the foreign exchange market: the exchange rate regime has worked in practice as a crawling peg. In addition, at times of devaluating pressures on the commercial exchange rate, the central bank has reacted by introducing administrative restrictions on the foreign exchange interbank market. This was particularly significant in 1996, when the central bank withdrew foreign exchange licenses from all the private banks to avoid a depreciation of the commercial exchange rate in response to a profligate policy mix. The new government has favoured the unification of the "official" and the "commercial" exchange rate which is stable at present thanks to tight monetary and fiscal policies.

Conclusion

It is too soon to judge whether Romania will be in a position, by the time of its accession, to participate in the euro area; that will depend on a successful structural transformation permitting it to attain and adhere permanently to the convergence criteria, though these are not a condition of accession.

Romania's participation in the third stage of EMU as a non-participant in the euro area still poses problems in the medium term. Central bank legislation is not fully compatible with EC rules and monetary and exchange rate policies have still to show a significant stability-oriented record.

Taxation

The *acquis* in the area of direct taxation mainly concerns some aspects of corporation taxes and capital duty. The four freedoms of the EC Treaty have a wider impact on national tax systems.

The indirect taxation *acquis* consists primarily of harmonised legislation in the field of Value Added Tax and excise duties. This includes the levying of a non-cumulative general tax on consumption (VAT) at every stage of the production and distribution of goods and services. This implies an equal tax treatment of domestic and non-domestic (import) transactions. The VAT *acquis* also contains transitional arrangements for the taxation of transactions within the European Union between taxable persons. In the field of excise duties the *acquis* contains harmonised tax structures and minimum rates of duty together with common rules on the holding and movement of harmonised excisable goods (including the use of fiscal warehouses). As a result of the introduction of the Single Market, all fiscal controls at the Community's internal frontiers were abolished in January 1993.

Mutual assistance between Member State tax authorities is an important feature of administrative cooperation in the internal market; the respective Directive covers both direct and indirect taxation.

The Europe Agreement contains provisions on approximation of legislation in the area of indirect taxation.

The White Paper contains as Stage I measures those which make up the main requirements of the indirect taxation *acquis* (essentially those measures applied in the Community up to 1993), and as Stage II measures those which are in addition necessary to implement the full indirect taxation *acquis*.

Descriptive Summary

Direct Taxation

The two company taxation Directives and the Arbitration Convention provide for a mechanism which applies on the basis of reciprocity. Respective provisions can therefore by definition not be expected to exist before accession

Indirect Taxation

The overall contribution of VAT and excise duty revenue to the Romanian state budget was about 27% and 6% respectively in 1995. More recent statistics indicating trends in these figures are not currently available.

Value Added Tax

The current Romanian VAT system was introduced on 1 July 1993 replacing the previous tax on goods in circulation. Romania applies a dual rate VAT system: a standard VAT rate of 18% and a reduced VAT rate of 9%. The standard rate is applicable to all goods and services, including imports, which are not specifically taxed at the reduced VAT rate.

The supply of certain goods and services is exempt from VAT without the right to claim the input credit on such supplies. The Romanian VAT Act does not make a distinction between what are considered as supplies of goods and services respectively.

Taxable persons are in principle entitled to deduct VAT incurred on their purchases for business purposes of goods and services. It is uncertain whether the Romanian VAT legislation contains provisions enabling tax to be refunded to taxable persons not established within the country.

Excise

The current system of excise duty in Romania was introduced at the same time as the VAT system. Excise duties are levied on a wide range of products including products other than those subject to common excise duties within the Community (mineral oils, alcohol and alcoholic beverages and manufactured tobacco). For each product category except cigarettes, the duty is ad valorem in nature.

Mutual Assistance

The tax administration has not yet had to develop its capacity for mutual assistance with the tax authorities of Member States, since mutual assistance is a feature which would only become applicable on accession.

Current and Prospective Assessment

Value Added Tax

The current VAT system in Romania has been based on the main principles of the VAT legislation of the Community. However, it is relatively general and inconsistent in its application.

The scope of exempt transactions under the Romanian VAT Act is significantly broader than is permitted in the Community. Also, in the absence of arrangements for the refund of VAT to non-registered foreign taxable persons, VAT would represent an increased cost to such traders.

Romania's membership of the European Union would require substantial adjustment to bring the VAT legislation into line with the requirements of the Community *acquis*, both in respect of the general provisions of the Community VAT legislation and as regards the system of taxation necessary in a Community with no internal frontier controls.

The Romanian national strategy plan for implementing the recommendations of the White Paper regarding VAT does not contain specific details as to future alignment on Community legislation. Romania does, however, expect its VAT legislation to be in line with the Community's by the end of 1997, with the exception of the Community's transitional VAT provisions.

Excise

There are significant discrepancies between the Romanian excise regime and EU requirements.

Firstly, there exists no excise suspension system where goods can move between authorised tax warehouses without payment of duty.

Secondly, there are differences in taxation of alcoholic beverages and cigarettes which provide for a higher level of taxation on imported products than that imposed on similar domestic products.

In the event of accession, excise duties on products not belonging to the above-mentioned categories could be maintained as long as they did not give rise to border-crossing formalities in trade between Member States and complied with the principles of non-discrimination between national products and products originating in other Member States.

In order to ensure a correct application of the Community excise legislation it is essential for Romania to set up a warehousing system based on the Community model as soon as possible, strengthen control procedures and adapt the structure and level of its excise rates so that they comply with the Community principle of non-discrimination between national products and those originating in other Member States.

The Romanian national strategy plan for implementing the provisions of the White Paper does not provide a clear and detailed timetable for future adjustments of Romanian excise legislation. Legislation is in place to introduce fiscal marking on alcoholic beverages (this is not, however, part of the Community *acquis*). Further objectives include gradual approximation of excise rates on tobacco products, moving away from the *ad valorem* system of duty on alcoholic beverages and narrowing the scope of excisable products. However no full harmonisation of legislation is planned.

Mutual Assistance

There would also be a need, on accession, to implement the appropriate arrangements for administrative cooperation and mutual assistance between Member States. These requirements are essential for the functioning of the internal market.

Conclusion

The *acquis* in respect of direct taxation should present no significant difficulties.

As regards indirect taxation, although a start has been made, a sustained effort will be required in Romania to comply with *acquis* concerning VAT and excise duties in the medium term.

It should be possible to start participating in mutual assistance as the tax administration develops its expertise in this respect.

Statistics

The main principles of the Community *acquis* relate to the impartiality, reliability, transparency, confidentiality (of individual information) and dissemination of official statistics. In addition there exists an important body of principles and practices concerning the use of European and international classifications, systems of national accounts, business registers, and various categories of statistics.

The Europe Agreement provides for cooperation to develop effective and reliable statistics, in harmony with international standards and classifications.

The White Paper includes no provisions in this field.

DescriptiveSummary

The National Commission for Statistics (NCS), an independent public office, is charged with producing and disseminating official statistics in Romania.

The legal basis for Romania's official statistics consists of the Government Ordinance No 9/1992 and Law No 11/1994.

Current and Prospective Assessment

Romanian legislation is, with a few exceptions, compatible with the current standards applied within the European Union.

The official statistics are generally of a high quality, but there are deficiencies in sectors such as regional, household and environment statistics, and national quarterly and financial accounts. The quality and coverage of the business register needs improvement.

Conclusion

Provided that progress continues to be made, Romania should be able to comply with EU requirements for official statistics within the next few years.

3.4 Sectoral Policies

Industry

EC industrial policy seeks to enhance competitiveness, thus achieving rising living standards and high rates of employment. It is aimed at speeding up adjustment to structural change, encouraging an environment favourable to initiative, to the development of undertakings throughout the Community, and to industrial cooperation, and fostering better exploitation of the industrial potential of policies of innovation, research and technological development. EC industrial policy is horizontal by nature. Sectoral communications aim at transposing horizontal concepts into specific sectors. EU industrial policy results from an articulation of instruments from a number of Community policies; it includes both instruments related to the operation of markets (product specification and market access, trade policy, state aids and competitions policy) and measures related to industry's capacity to adapt to change (stable macroeconomic environment, technology, training etc.).

In order to cope with competitive pressure and market forces within the Union, the industry of applicant countries needs to have achieved a certain level of competitiveness by the time of accession. The applicant countries need to be seen as pursuing policies aimed at open and competitive markets along the lines set out in Article 130 ("Industry") of the Treaty. Cooperation between the EU and the candidate countries in the fields of industrial cooperation, investment, industrial standardisation and conformity assessment, as provided for in the Europe Agreement, is also an important indicator of development in the right direction.

Descriptive Summary

Industrial output of Romania stood at around ECU 11.6 billion in 1995, slightly lower than the industrial production of Ireland. In the period 1990-1995 the share of industry in GDP declined from 46% to 42%. Total employment in industry is around 2.7 million people. There are an estimated 34 000 or so industrial enterprises, of which 96% have less than 500 employees. However, SMEs account for only 18% of industrial output. Roughly one fifth of production was exported in 1994.

Before the transition towards a market economy began in 1989, Romanian industry was run by the government under very tightly control, including high levels of concentration and with a strong emphasis on heavy industries. Several industries are characterised by obsolete production technologies, products not adapted to market conditions, low capacity utilisation rates, low levels of managerial skills, and a very heavy losses. Industrial investment has decreased since 1990. Nevertheless, Romanian producers are becoming increasingly active on export markets, reflecting growing competitiveness in some sectors

Romania, main industrial sectors in 1995

	% share industrial production	% share industrial employment
Foodstuffs	15	9
Mechanical & electronic engineering	12	21
Steel, metallurgy, non-ferrous materials	14	6
Chemicals	10	4
Textiles, clothing and leather	8	4
Raw material processing (including cement, glass, ceramic, paper, wood)	6	8
Automotive	6	7
Furniture	2	4
Pharmaceuticals	1	1
Information technologies	1	1
Others	16	5
Sub-total	91	84
Construction	9	16
TOTAL	100	100
<i>Industrial production as % of GDP</i>	<i>36</i>	

Foodstuffs This sector is one of the most important in the industry. The majority of the companies are state-owned. Low productivity, under-utilisation of production capacity and lack of adjustment constitute principal weaknesses of this sector. The government implemented a protectionist policy by increasing import duties. Discriminatory levies were also introduced. Owing to low product quality, exports are not significant and mainly intended for other countries of central and eastern Europe.

Mechanical engineering is the second largest industrial sector. It is not considered to have the capacity, specialisation, labour productivity and technology necessary to compete internationally. A large part of the installed production capacity (currently used at a rate below 50%) will have to be dismantled in the coming years. On the other hand, the industry may, by relying heavily on low wages, hope to save some production and export simple machinery and components requiring a particularly high labour input.

The **fabricated metal products** sector is undergoing a deep crisis and the scope for of competitive upgrading is limited. Production is dispersed and labour productivity is low. Romanian manufacturers are faced with excess capacity and a depressed home market. There is some continuing export performance but it remains small in absolute terms. Most of the large installed production capacities would have to be disposed in the coming years. The lowering of import tariffs vis-à-vis third countries to the EC level would expose Romania to a large increase of imports from East Asia. However, there are increasing links with EU industry (notably Italian tool-making industry) for low value-added parts.

The **chemical** sector is a third major industrial sector in Romania. The utilisation rate of production capacities is low and most production facilities are obsolete. Major rationalisation and a profound restructuring are necessary, and privatisation has not taken off yet.

The **steel** industry is characterised by its large scale (crude steel production capacity in 1995 was only slightly behind that of Poland) and obsolescence of facilities. It has a high concentration in low added value products that have a high sensitivity in the markets. The necessary restructuring process has not so far started despite a formal restructuring strategy. Implementation has been delayed mainly by the absence of a single decision-making body and the lack of financial resources.

The **textile and clothing** sector is characterised by a high number of small companies along a small number of large enterprises, mostly state-owned companies with massive problems and heavy losses. There is rapidly rising FDI which modernises the entire production chain. Most trade is carried out with the EU, and as of 1 January 1998 there will be neither tariffs nor quantitative restrictions for Romanian textile/clothing exports to the EU.

The **leather and shoe** sector is an important traditional sector with a particularly cheap labour force. Imports of hides and leather products is liberalised, as well as exports of leather and leather products. However, exports of some raw hides and skins were subject in 1996 to export quotas and a temporary export prohibition. This situation provides a competitive advantage to the Romanian tanning sector, but the system is scheduled to end in 1998.

The **furniture** industry is one of the most important ones of Eastern Europe. Low productivity levels are targeted by a policy of encouraging investments and exports.

Automotive sector: There are three car producers and two manufacturers of commercial vehicles. In cars, the capacity utilisation is low. About one third of production is exported, mostly to price-sensitive markets and other Eastern European markets. A joint-venture between a Korean manufacturer and the government represents the first large scale foreign investment. But at a time of limited growth prospects it threatens to create in the region. Applied import duty rates on automobiles from the EU were reduced but have subsequently been increased again.

The **information technology (IT) industry** started in early 1970s with importing licenses and growth in the sector was mainly the result of the important R&D network activity. It is producing a range of components destined to automate production processes but has not yet played an important role as a production base.

The **pharmaceutical** sector remains small and production is mainly intended for local consumption. Moreover, local companies are highly dependent on imported raw materials and have a low R&D potential.

Romania has a relatively small **aeronautics industry**. The sector existed prior to 1991 as a sub-contractor to the USSR industry and has now lost its main export market. Joint ventures with European companies and/or sub-contracting for European companies is one option to make use of their skilled work-forces. Romania also has some **space** technological capability, having been part to the 1967 Intercosmos agreement. This involved supplying hardware and other support to Soviet-led scientific missions. The sector presents some opportunities for the European industry in the growing satellite communications segments such as private networks, direct broadcasting, personal communications and broadband services.

There is a long tradition of **shipbuilding**. All companies are still, if only partly, state-owned. Investment has been delayed during the recent years.

State ownership of enterprises is still a predominant feature in Romanian industry. Of the total 2.7 million jobs, 2 million are in the public sector. Only one fifth of industrial output is generated by the private sector. Privatisation has proceeded slowly despite the adoption of a comprehensive mass privatisation programme in 1995. The State Ownership Fund (SOF) created in 1991 has the responsibility for state-owned commercial companies and for any restructuring measures prior to privatisation.

After suffering three years of economic decline during the initial transition shock, the Romanian economy since 1993 recovered to produce four years of consecutive growth. Production has increased in response to growing domestic and international demand. One-fifth of total production was exported in 1994, particularly light industrial goods. Industrial investment has decreased since 1990 and inward investment remains low.

Current and Prospective Assessment

Romanian industry is not yet very advanced in the process of adaptation to a market based economy. Obsolete production technologies are still widespread, products are often not adapted to market conditions, capacity utilisation rates are generally very low, and managerial skills for bringing about the necessary change are largely absent, in particular in state-owned enterprises.

Inter-enterprise arrears are still a problem in Romania, especially for industry. There will be yet another attempt at stabilisation this year but it is unlikely to achieve lasting results unless the deeper problems (e.g. cheap directed credit and large losses in the state-owned enterprises) are addressed. The heavy industry that was built on indigenous sources of energy and raw materials wastes less energy than that in some other applicants since Romania could not rely in the past on cheap supplies from the USSR. However, its future is not promising since the costs of sourcing raw materials domestically are increasing as Romanian deposits are nearing completion. The centralisation of oil trade is not a sign that restructuring will proceed quickly. If the current government pushes through serious reforms industrial output might first decline from the subsidised level reached last year.

There is a need for far-reaching restructuring in particular for foodstuffs, steel other heavy industry and mining. However the ability of the Romanian industry to make necessary changes is hindered by a number of factors, including infrastructure deficiencies, delays in information technology development, weakness in corporate governance, lack of financial resources and inflationary pressure. Effective implementation of the privatisation process and the reduction of state involvement in enterprises are still lacking too.

Romania maintains a system of exclusive rights and concessions for oil exploration and production, as well as for ore mining. An exclusive regime was created for 83 "Régies Autonomes" of strategic importance to the State. State monopolies are currently maintained in some areas of industry, including tobacco, alcohol, medicines,; a system which will require adjustment to EU legislation.

The commitment of the new government elected in November 1996 for an economic policy based on tight budgetary constraint will have considerable repercussions on industry. Thus, the intention to liquidate the ten biggest loss-making companies was announced in early 1997, but the process is likely to have political and legal ramifications which make it difficult to see any short-term results. Concerning the steel sector in particular, the government has adopted a Strategy for the Restructuring of the Romanian Steel Industry that would need to be implemented. The Romanian government still protects certain sectors of industry, including food, leather/shoes and automobiles, by means of tariff measures, import restrictions on used vehicles etc., which would need to be adapted.

Conclusion on Industrial Competitiveness

Romania has not yet created conditions conducive to a dynamic and competitive private sector. Its industry will only be ready to withstand competitive pressures in the single market in the long term. Comprehensive restructuring needs to be undertaken to prepare for future accession. The removal of the remaining barriers to private-sector growth will require a high degree of political commitment and administrative competence. Although there have been notable successes in the reform of industry, significant work remains to be done, specifically the restructuring of the largest of the loss-making state-owned enterprises.

An evaluation of the *acquis* specific to the free circulation of industrial goods is to be found in the separate section on the internal market.

Agriculture

The Common Agricultural Policy is aimed at maintaining and developing a modern agricultural system guaranteeing a fair standard of living for the agricultural community and the supply of food at a reasonable price for consumers, and ensuring the free movement of goods within the EC. Special attention is given to the environment and rural development. Common market organisations exist to administer the CAP. These are complemented by regulations on veterinary health, plant health and animal nutrition and by regulations concerning food hygiene. Legislation also exists in the area of structural policy, originally developed primarily to modernise and enlarge agriculture, but more recently with an increasing emphasis on the environment and the regional differentiation of the policy. Since reforms in 1992, direct aid payments have made an increasing contribution to farm support, compensating for reduced agricultural support prices.

The Europe Agreement provides the basis for agricultural trade between Romania and the Community and aims to promote cooperation on the modernisation, restructuring and privatisation of Romania's agriculture sector as well as the agro-industrial sector and plant-health standards. The White Paper covers the fields of veterinary, plant-health and animal nutrition controls, as well as marketing requirements for individual commodities. The purpose of such legislation is to protect consumers, public health and the health of animals and plants.

Descriptive Summary

Agricultural Situation

The value of the agricultural production in 1995 was approximately 4.93% of that of the Union.

In 1995 agriculture accounted for about 20% of Romania's GDP and employed 34.4% of the working population.

At the outset of the transition period, agriculture held up better than other sectors of the economy and, by 1994, had returned to 1989 levels. Output nevertheless remains vulnerable, in particular owing to a fall in the use of fertilisers and irrigation, and fluctuates considerably from one year to the next; in 1996 arable output - principally grain - collapsed, mainly as a result of bad weather. The livestock sector appears to be stabilising.

Farmland (minus forests) accounts for 14.8 million hectares (62% of the country's total surface). Mountain areas represent 30 % of total land area.

Forest covers 6.69 million hectares or 28% of Romania; timber production, which stood at 14 million m³ in 1994, has fallen by a third since the transition period began, but remains nonetheless one of the country's main export sectors.

Irrigation is vital to a major part of Romania's farmland. With 3.1 million hectares of irrigable land, Romania has Europe's second largest irrigable area, though only 800 000 hectares are currently under irrigation (inefficient installations, fragmentation of holdings, shortage of funding).

Until 1989 the sector was dominated by 511 state farms (14% of the utilised agricultural area (UAA)) and 3776 agricultural production cooperatives (61% of the UAA), with private farmers holding the remaining 25%. The break-up of the agricultural cooperatives in 1990-91 was followed, in 1991, by the introduction of a new system of land tenure. Several types of farm now coexist: non-privatised companies (former state farms averaging 2002 hectares: 12% of the UAA), associations (13% of the UAA - average size: 366 hectares), family associations (14% of the UAA - average size: 113.6 hectares), smallholdings (38% of the UAA - average size: 1.8 hectares) and others (research centres, common land: 23% of the UAA). This is reflected in the fragmentation of plots and farms. Private sector activity in arable and livestock primary production accounted for over 85% of gross agricultural output in 1996 but significantly lower shares of total sales and commodity purchasing activities, where SOEs continued to dominate, due to the large subsistence economy in the private sector.

In the period 1989-1993, the reduction in the size of farms and a shortage of funding led farmers to plant more cereals and cut down on other crops (especially beet). Grain maize production has been stepped up at the expense of wheat. Overall grain production in 1996 amounted to only 14.25 million tonnes, markedly down on the previous year's 19.9 million tonnes.

Compared with 1995, 1996 was a good production year for fruits (+70%), potatoes (+20%) and sunflower (+17%). The surface planted with vines has also risen steadily (+10%) throughout the 1990s, with production now exceeding the levels of the mid-1980s.

After progressive declines in livestock numbers between 1989 and 1995, Romanian pig and cattle numbers increased by 2% and 5% respectively in 1996. Sheep and goat numbers continued to fall. Production of milk (3.9 million tonnes) and beef (240 000 tonnes) was greater in 1995 than in 1989, whereas pigmeat (647 000 tonnes) and poultrymeat (274 000 tonnes) remained substantially down. However, overall meat production increased slightly in 1996 and egg and milk production were up 2% and 3% on 1995. The bulk of the increases came from private farm activity although state pig and poultry farms continue to dominate their respective sectors.

The agri-food sector accounts for 20-25% of industrial activity in Romania; structural handicaps (the creation of production units in the 1970s on the basis of political decisions rather than economic criteria) are exacerbated by obsolete technologies and know-how, a consequence of a lack of major investment since the plants were established and shortcomings in the management of human resources.

As a result, fewer than a third of enterprises have been privatised and foreign investment remains very low.

The agricultural trade balance has worsened considerably since 1989: in 1995 the country's farm imports (8.4% of total imports) stood at ECU 835 million (ECU 267 million from the EU), while farm exports totalled ECU 460 million (6.5% of total exports), ECU 117 million to the EU.

Agricultural Policy

This section describes the main components of Romanian agricultural policy from the start of the transition period to the end of 1996. The reforms put in hand in the first half of 1997 are dealt with in the section entitled "Current and Prospective Assessment".

In the early years of the transition the Romanian government sought to preserve a system obliging producers to sell cheaply through the state distribution network as part of a strategy to maintain a social consensus and fight inflation.

The pricing system has since undergone gradual liberalisation and become more flexible: producer and consumer prices on local markets have been liberalised, resulting in a swift rise in real terms, though, under Law No 83/1993 (November 1993), the government can set "guaranteed minimum purchase prices" on 1 March every year for products "of national importance", at a level corresponding to 80% of the previous year's average world market price. The law covers a wide range of arable products (grain, oilseeds, vegetables, sugar beet, potatoes etc.) and milk, pigmeat and poultrymeat. In 1995, however, only wheat, milk, pigmeat and poultrymeat were seen as products "of national importance" and placed under the system. The guaranteed minimum price (GMP) is in fact the price offered to producers by official or officially-mandated agencies.

This results in a dual-pricing system for the four products concerned (combined with the restrictive arrangements concerning production subsidies), whereas prices for all other agricultural products on the Romanian market can be considered completely liberalised.

Since 1993 a pro-active policy of subsidising inputs has been pursued; in most cases subsidies are reserved for, or preference given to, farms supplying all or part of their production to state agencies at prices lower than on the open market.

Producers selling on the open market appear to receive only limited support.

SOEs also benefit from lower taxes, subsidised government loans and, in some cases, direct aid.

Fluctuations in Romanian farm prices are linked to those on the world market: since 1993 Romanian wheat prices have practically matched Community prices, reflecting relative trends in Community and international prices; for pigmeat and poultrymeat institutional and market prices expressed in ECU have remained relatively stable at levels close to those on the Community market. Prices for poultrymeat on the open market have remained 40% higher than the GMP, reflecting the country's situation as a net importer.

In the case of milk, comparison with Community prices is particularly tricky; prices on the open market seem to be dictated by competition from products reconstituted from Community milkpowder, with the real purchase cost of "controlled" milk representing only a third of the price on the open market owing to the premiums paid to state dairies.

In 1994 the Ministry of Food and Agriculture accounted for 9.5% of budget spending. Consumer price support was removed in 1993 but premiums to the four main farm subsectors took up almost half of the agriculture budget in 1995, i.e. almost 5% of total budget spending. Combined transfers to agriculture from state resources in 1996 amounted to 4% of GDP. About half these transfers were direct budget transfers (interest rate subsidies, producer premiums); the rest were quasi-fiscal transfers via directed credits financed by the National Bank. The expansion of quasi-fiscal transfers in 1996, particularly, was not sustainable and contributed significantly to over-lax national monetary policy and inflation. Tax revenue from agriculture contributed some 1% to government income in comparison with the above outflows.

For the purposes of applying the Uruguay Round agreements, Romania has made its commitments in national currency - albeit in real terms - and has also opted for developing-country status, which offers a longer transition period (10 years). It has not specified its commitments on internal support and is therefore, as a developing country, bound to limit spending to 10% of the value of its production.

Since 1 July 1995, the tariffication of import measures has resulted in a considerable increase in protection for Romania's domestic market for agricultural and food products. Romania has higher import duties than the Union on most products. Romania has pledged to cut export subsidies to 2.2 billion lei (less than ECU 1 million) by 2004.

The Europe Agreement with Romania has been applied since 1995.

As and when necessary, the Government introduces temporary export bans to guarantee domestic prices lower than those on the international market. Romania does not currently appear to be subsidising exports.

Veterinary and plant-health legislation is in the process of being harmonised with the Community provisions set out in the White Paper and negotiations are under way for an equivalence agreement.

Agricultural policy is implemented by the Ministry of Agriculture; Romania does not have intervention bodies comparable to those of the fifteen Member States.

Current and Prospective Assessment

Up to early 1997, the Romanian authorities sought to liberalise the country's agricultural economy while minimising the immediate impact on agricultural output and industries up- and downstream, effectively delaying the restructuring needed for the switch to a completely liberalised economy.

Relatively cheap loans and support for producers in the form of aid for the supply of seed and fertilisers have brought some recovery in arable production. It is likely, in the medium term, that Romania will once again become a grain exporter.

This policy cannot, however, be sustained, since it generates a public deficit and consolidates state distribution and marketing structures; the privatisation of the agri-food industry has fallen way behind schedule, with SOEs continuing to receive direct or indirect support. In the absence of restructuring and investment, their economic results are getting worse but at the same time private economic operators are not really able to break through.

The GMP systems do not have similar or comparable effects to the CAP rules for the products concerned. They are fixed in the light of trends in prices on the open market at levels attractive enough to ensure supplies to public purchasing and processing bodies. They have risen in the past three years in response to rising international prices and local inflation, but any drop in international prices would be accompanied by a fall in the GMPs.

Thus Romania does not at this time have institutional prices directly comparable to those in the Community.

However, the national economic recovery programme set out by the Romanian Prime Minister in February after negotiations with the IMF and World Bank marks a complete break with the Romanian authorities' previous approach, without going so far as to lay the foundations for machinery akin to the common market organisations. Since 18 February price controls have been removed from all agricultural products, and key measures have been announced (speeding-up of land reform, privatisation, reduction in direct support for food-processing firms and reform of support to farmers, reduction in export barriers and a cut in import duties). The measures relating to foreign trade have been applied since March and some input aid has been abolished.

It is extremely difficult to forecast trends in prices in the run-up to accession; this will depend on a number of factors including the domestic economy, the situation on export markets and developments in the level of price support in the Union.

European marketing standards and classification systems will also have to be applied. Romania has neither the main instruments used for managing markets and supporting agriculture in the Community (milk quotas, compensatory payments, premiums in the livestock sector etc.) nor rural development measures. Their management and supervision require quite sophisticated administrative arrangements; were they to be applied in Romania, their implementation would be a considerable challenge to the country's administration.

Romania is correctly applying the provisions of the Europe Agreement concerning trade with the Union in agricultural products.

Romania has made progress towards aligning its legislation on the measures in the White Paper. Veterinary legislation has been partly harmonised, but that on animal welfare does not satisfy Community requirements. 1997 has been set as the target for harmonisation, but no schedule has been established for effective implementation. Border inspection arrangements do not meet Community standards; there is no provision for inspecting live animals and animal products, with checks generally being confined to documents; most physical controls take place at the destination. As for internal arrangements, the Romanian authorities will have to test their animal health rules against the Community requirements and make the requisite adjustment with regard to the registration of herds and the identification of animals. To align on Community legislation it will also be necessary to discontinue vaccination against classical swine fever, which will not be easy. Processing plants will also have to be brought up to Community standards.

Romanian law provides for a national inspection service, but financial problems appear to be delaying its establishment; this means there is not yet sufficient assurance as to the implementation of internal market rules.

The schedule presented in the area of plant health provides for the harmonisation of legislation in 1997; a further exchange of information will be needed to assess the real capacity of the services concerned, which are undergoing restructuring, to apply these arrangements.

The legislation on seed and propagation materials should be harmonised in mid-1997; equivalence is recognised for many varieties, but the certification services will have to be given extra resources; harmonisation has to a great extent been achieved for pesticide residues, only partially for animal nutrition and not at all for plant-protection products and organic farming.

Conclusion

Limited progress has been made in adapting to the Community *acquis* and considerable sustained effort will be needed with regard to restructuring agriculture and the agri-food sector, and with reform of agricultural policy to prepare Romania to apply the *acquis*.

Particular efforts are needed in relation to :

- implementation and enforcement of veterinary and plant-health requirements and upgrading of establishments to meet EC standards; this is particularly important with regard to the inspection and control arrangements for protecting the EU external borders;
- strengthening of the administrative structures to ensure the necessary capacity to implement, and enforce the policy instruments of the CAP;
- restructuring of the agricultural and agri-food sector to improve its competitive capacity.

Fundamental reforms are necessary before Romania will be able to meet the obligations of membership.

Fisheries

The Common Fisheries Policy includes common market organisations, structural policy, agreements with third countries, management and conservation of fish resources, and scientific research in support of these activities.

The Europe Agreement includes provisions concerning trade in fisheries products with the Community. The White Paper includes no measures in this field.

Descriptive Summary

In 1995, Romania's fisheries sector employed 6 000 people. Approximately 69 000 tonnes of fish and fish products valued at ECU 232 million was produced, equivalent in value to 2.8% of EU production.

In 1995 the fleet consisted of 34 vessels, of which 19 (employing 1 300 people) were registered for the high seas and 15 (employing 109 people) for Black Sea coastal waters. Further information is needed on the number of active fishing vessels: data on structure by age, displacement and length give significantly smaller totals (ranging from 14 to 21 vessels).

The total catch was 39 000 tonnes (up from 1 400 tonnes Black Sea plus 1 300 tonnes distant water catches in 1993). 95% (36 500 tonnes) of the 1995 catch came from the north-east Atlantic (mainly mackerel and herring) and the rest (1 500 tonnes) from the Black Sea (mainly sprat).

Other important Romanian fish supplies in 1995 originated from freshwater aquaculture, mostly carp (28 000 tonnes), and imports mainly from EU Member States (46 300 tonnes).

The processing sector includes 14 enterprises employing 1 700 people, concentrated in four large firms. Its output in 1995 was 69 105 tonnes (double that of 1993), of which 30% came from the private sector.

In 1995, Romania imported 46 300 tonnes and exported 5 099 tonnes of fish and fish products. Fish imports for the first nine months of 1996 amounted to 13 000 tonnes and exports 230 tonnes - a substantial fall on 1995. As a trading partner, Romania accounts for 0.02 % of EC total fish imports and 0.8 % of EC imports of fisheries products from the candidate countries alone (in terms of value). As regards EU exports, Romania accounts for 0.39 % of total exports of fisheries products and 4.7 % of such exports to the candidate countries (in terms of value).

No specific institutional capabilities or structures exist to monitor or enforce catch quotas in the high seas, the Black Sea or internal waters, although various bodies are empowered to enforce the laws.

Current and Prospective Assessment

Romania's production and foreign trade data, when compared to the corresponding EC figures, are quite low and apparently on a declining trend. Therefore they should not have a significant impact upon the Community as a whole.

Romania intends to modernise the high sea fleet and increase catches to some 80-100 000 tonnes a year by 2000, after restructuring deep sea and Black Sea state fishing companies to facilitate accelerated privatisation. Further exchange of information on the sources of increased catches and progress with restructuring are needed to assess the achievability of these ambitious targets and the new government's acceptance of them.

The industry is outdated and will require modernising. It will be necessary for Romania to establish a fisheries administration which is capable of implementing the Common Fisheries Policy - in particular, the management of resources, the keeping of a fishing fleet register, the application of structural policy for the sector, the management of the market scheme and the collection of all statistical and scientific data - as well as the EC's policies on health, hygiene and environmental matters.

Further exchange of information is needed to assess the situation about agreements with other countries.

Conclusion

Significant efforts are needed in order to adapt the sector for accession. The integration of Romanian fishing industry into the Common Fisheries Policy will not cause major problems.

Energy

The main EU energy policy objectives, as reflected in the Commission White Paper "An energy policy for the EU" include enhancement of competitiveness, security of energy supplies and protection of the environment. Key elements of the energy *acquis* comprise of Treaty provisions and secondary legislation particularly concerning competition and state aids, internal energy market (including directives on electricity, price transparency, gas and electricity transit, hydrocarbons licensing, emergency response including security stock obligations, etc.), nuclear energy, as well as energy efficiency and environmental rules. Development of Trans-European Energy Networks and support for energy R&D are other important elements of energy policy. Ongoing developments include liberalisation of the gas sector, energy efficiency *acquis* and the Auto-oil programme.

In the field of nuclear energy, the Community *acquis* has evolved substantially from the original EAEC Treaty to a framework of legal and political instruments, including international agreements. At present, it addresses issues of health and safety, including radiation protection, safety of nuclear installations, management of radioactive waste, investment including Euratom financial instruments, promotion of research, nuclear common market, supplies, safeguards, and international relations.

The Europe Agreement provides for cooperation to develop the progressive integration of the energy markets in Europe and includes provisions on assistance within the related policy areas. The White Paper preparing CEECs for the internal energy market underlines the need for full application of key internal market directives in combination with EU competition law. As to the nuclear sector, the White Paper refers to nuclear supply safeguards and shipments of nuclear waste.

Descriptive Summary

In south-east Europe Romania is the country with the largest own energy resources, particularly of oil and gas (both on and off-shore), but also lignite, hard coal, uranium and hydropower. It is more than 70% self-sufficient. Gas, imported for half of the country's needs from Russia, accounts for more than 40% of the energy balance.

The oil industry includes large oil refining capacities (34 million tons a year) with their associated facilities such as a pipelines and import/export terminals on the Black Sea.

Crude oil (from Russia but also the Middle East) is imported through Constanta. Gas transits from Russia, the Ukraine and Moldova to Romania.

Romania acts also as a strategic corridor for Russian gas to the Balkans, including Greece. Romania's strategy for connecting its electricity networks in future to the Western European UCPTE network contributes to its role as a transit country as well as helping it integrate into the Trans-European Energy Networks. The recent synchronous connection, as a test, of the Romanian, Bulgarian, Greek, Serb and Albanian electricity networks is a preliminary step towards future connection to the UCPTE.

The solid fuel sector (producing mainly lignite, and representing a labour force of 115 000) is subsidised by the Government and needs far-reaching restructuring.

The energy sector accounts for a larger part of the country's production than any other sector of the Romanian economy. The country's energy sector is three times less efficient than the EU average, due to the heritage of its past: low prices, insufficient efficiency policies, obsolete technologies etc. Inefficiencies, but also the power sector, solid fuels and the oil sector contribute to environmental degradation.

Romania's first nuclear power plant (Canadian Type CANDU, built with Canadian and Italian participation) is now in operation at Cernavoda, accounting for 8% of electricity production in 1996. The Government considers the construction of unit two in the next five years a goal of material importance. Also the construction of other units which would conform to safety objectives generally accepted in the EU are foreseen in the longer term, but the financing scheme is not yet established. The natural uranium used to fuel the reactor is mined and processed into fuel in Romania and Canada.

Romania also has two research reactors. The high enriched uranium fuel has come either from Russia or from the USA. The return of the spent fuel to the USA is arranged but must be clarified for Russia. The structure of the electricity tariff, integrating the different costs associated with the production of nuclear power, is in the process of being established.

Current and Prospective Assessment

The large Romanian energy sector suffers heavily from absence of investment funds, whereas restructuring is also hampered by the absence of a clear overall energy policy. Only parts of policies and the necessary legislation have been implemented (e.g. Petroleum law) but there are many more drafts which need to be passed by Parliament or need implementation (e.g. future electricity/thermal energy law etc.).

The competition framework in the energy sector does not yet fulfil the directives of the internal energy market in combination with the application of EC competition law. Large vertically integrated state dominated energy companies hold monopolies in production, transmission and distribution. However, foreign companies are already active in e.g. the oil sector (oil exploration and oil products retail). Energy prices, except oil prices which reach nearly world level, are cross-subsidised and are therefore distorted. For social reasons household energy prices in particular are still at too low a level.

Romania does not comply with the *acquis* on emergency preparedness, including the obligation to hold 90 days of oil stocks. Current stocks seem to be around 30 days but one should take account of indigenous production which diminishes the country's stockholding obligations by a maximum of 15%. Adaptation to Community *acquis* will require legislation and important investments for tanks and the stocks.

Concerning the solid fuels sector, state intervention needs to be assessed against EC rules and specific ECSC state aid legislation.

Compliance with Community rules on energy efficiency (e.g. labelling and minimum efficiency requirements) and the environment (e.g. fuel quality) are hampered by, for example, the absence of investment funds, although work on efficiency labelling has started. Much remains to be done.

In this context it should be noted that the oil industry, and particularly refineries, should adapt to EC norms and will have to face a saturated European market.

If Romania continues to cover its uranium needs through domestic production, this would be a positive factor for the long term security of supply of an enlarged EU. The common nuclear materials supply policy of security through diversification of sources applies, for contracts concluded after accession. Spent fuel from Cernavoda nuclear power plant will be stored for the first years of operation at the plant site. Longer-term solutions are not yet defined.

Upon accession, Romania needs to comply with the provisions of the Euratom Treaty, in particular those related to supply of nuclear material, the nuclear common market, safeguards, health and safety and international agreements. Possible difficulties may reside in the fact that it is not clear whether Romania has fully implemented some international regimes in these areas (notably the Vienna Convention on civil liability for nuclear damage, the Physical Protection Convention and the Nuclear Suppliers Guidelines). Romania also has a full-scope safeguards agreement with the IAEA, so no major difficulties in applying Community legislation in this area are expected. The Western-designed nuclear plant does not present problems but specific attention should be given to operational safety. The independence of the safety authority should be supported.

Conclusion

Romania has to step up considerably its efforts in the energy sector in order to prepare for integration.

The following matters need particularly close attention: the adjustment of monopolies, including import and export monopolies; energy pricing; emergency preparedness including the building-up of mandatory oil stocks; state interventions in the solid fuels sector; developments of energy efficiency and fuel quality standards.

No major difficulties are foreseen for compliance with the Euratom Treaty but Romania should implement some international nuclear rules. Nuclear safety standards, especially those related to plant operation, should be handled appropriately and longer-term solutions found for waste.

Transport

Community transport policy consist of policies and initiatives in three fundamental areas:

- improving quality by developing integrated and competitive transport systems based on advanced technologies which also contribute to environmental and safety objectives;
- improving the functioning of the single market in order to promote efficiency, choice and user-friendly provision of transport services while safeguarding social standards;
- broadening the external dimension by improving transport links with third countries and fostering the access of EU operators to other transport markets(The Common Transport Policy Action Programme, 1995-2000)

The Europe Agreement provides approximation of the legislation with Community law and for cooperation to restructure and modernise transport, the improvement of access to the transport market, the facilitation of transit and the achievement of operating standards comparable to those in the Community. The White Paper focuses on measures for the accomplishment of internal market conditions in the transport sector, including such aspects as competition, legislative harmonisation and standards.

Descriptive Summary

Romania has no border with the Union, but the war in former Yugoslavia led to a substantial rise in transit traffic, crossing Romania to avoid former Yugoslavia and mostly using a road infrastructure which was not built for such heavy traffic. Romania was faced with the need to invest in rapid and significant improvements to its road network, most of which are still under way, and to develop its limited border crossing infrastructure. Three of the Trans-European Corridors identified at the Pan-European Conference in Crete cross Romanian territory.

After the political changes in 1990 and the opening-up of the country, Romania has gone through a difficult period, with a major economic recession causing a sharp fall in traffic. Transport demand has not yet recovered to its previous level, except for inland navigation and air transport. The most substantial change in the modal split occurred in freight transport, with a significant increase in the share of road transport compared to other modes; railways, which had an artificially enhanced role in the past, have in particular lost market share.

Romania has to cope with many handicaps in transport: the previous Romanian policy of autarchy and requiring full reimbursement of the foreign debts led to a lack of investment in infrastructures and equipment for transport, especially in a situation where most public transport equipment was imported. This problem is exacerbated by the fact that most of this equipment came from the former Soviet Union, which means that Romania has to make substantial provision simply for replacing non-standard and out-of-date transport equipment at a time when the requisite financial resources are not available. The development of transport demand during the pre-accession period will therefore need to be followed closely.

Current and Prospective Assessment

As regards completion of the internal market, Romania has made considerable efforts to assimilate the *acquis*. In the international transport sector, especially the inland waterway and combined transport sectors, Romania is already partly applying rules similar to those of the Community Union's. In air transport, however, Romania must continue its harmonisation efforts and move swiftly to adopt the planned measures, and in particular the new Civil Aviation Code. The need to renew fleets could also pose considerable financial difficulties. In the shipping sector, the main divergences from the *acquis* are in the area of safety, where Romania is still a long way from Community standards.

The Romanian road haulage sector is not in full conformity with the current Community legislation; Romanian legislation and implementation should be brought into line before accession. These points would have to be followed during the pre-accession period, in the field of road safety, weights and dimensions and user charges. Ensuring full compliance with Community rules on weights and dimensions may not be achieved in the timescale of accession, restricting the ability of the Romanian network to accept EU vehicles.

The rail and road passenger sectors pose fewer problems in terms of the adoption of the *acquis* than the three mentioned above, though a number of points could usefully be clarified and certain efforts made in the rail sector. In contrast, the functioning of the market in these two sectors calls for a more guarded response, structural change (private-style management, opening up to competition etc.) having only just begun. Both sectors are likely to see major upheavals in the years ahead.

The development of an integrated and competitive transport system is an objective of which the Romanian authorities are aware; achieving an acceptable level of safety and optimal use of the transport system are probably going to be the two main difficulties. Romania is making encouraging progress on safety, but is still far from Community standards, especially in air, sea and road transport. In terms of the overall coherence of the transport system, Romania is likely to face a steady rise in the share of road transport and will have to focus its efforts on the use of railways and inland waterways, given that its road network is comparatively weaker than the rail and inland waterway networks.

In order to improve links with the Member States and its neighbours, Romania is planning to invest about ECU 1.6 million of its own budget over the period 1995-99 in transport infrastructure used by international traffic, primarily trans-European corridors. This sum amounts to about 1.3% of GNP; it may seem a respectable effort, but it clearly will not be enough. Any reduction in this amount as a result of budgetary constraints would further exacerbate the situation and handicap the country's European integration process.

Conclusion

Romania has made progress in the adoption of the *acquis* in the transport sector. However, its entry into the internal transport market should remain subject to rapid alignment on the *acquis*. Shipping and road haulage are the sectors most likely to pose problems, especially with regard to safety, but efforts will also have to be made in the rail sector.

It will also be necessary to make sure that the resources needed to lay the foundations for the future trans-European transport network, extended to include the member countries, are actually made available and that the road network's present shortcomings are remedied in short order. Romania's administrative structures, and in particular bodies supervising areas such as safety, must also be rapidly and substantially reinforced.

Small and Medium Enterprises

EU enterprise policy aims at encouraging a favourable environment for the development of SMEs throughout the EU, at improving their competitiveness and encouraging their Europeanisation and internationalisation. It is characterised by a high degree of subsidiarity. The complementary role of the Community is defined and implemented through a Multiannual Programme for SMEs in the EU. This programme provides the legal and budgetary basis for the Community's specific SME policy actions. The *acquis* has so far been limited to recommendations on specific areas, although legislation in other sectors also affects SMEs (e.g. competition, environment, company law).

The Europe Agreement provides for cooperation to develop and strengthen SMEs, in particular in the private sector, *inter alia* through provision of information and assistance on legal, administrative and tax conditions. The White Paper contains no specific measures.

Descriptive Summary

It is estimated that in 1995 manufacturing industry contributed 34.6% to GDP (25.2% for manufacturing) and the service sector accounted for 37.9% of GDP. Total private sector contribution to GDP was around 45%, while in terms of value added it was about 29%. Around 98% of all enterprises can be classified as SMEs (i.e. using the Government of Romania's definition of 500 employees or less). The majority are engaged either in retail or wholesale trade (70%) or industry (11%).

Although the Government recognises the important role that SMEs play in the economy there is a lack of coherence in the policy and the approach to supporting SMEs. The Government is also constrained by the lack of fiscal resources to implement activities in support of SMEs. The main structures which currently exist for SME support have been established and supported by donors.

A number of limited ad-hoc measures have been taken by the government in support of SMEs. Legislation has concentrated on establishing support structures, establishing financial instruments and simplifying the tax regime. As of 1 January 1996 the National Privatisation Agency was established as the main agency responsible for developing SME policy and managing specific measures in support of SMEs. There are also an increasing number of professional and employers associations. Other bodies involved in SME development include the Chamber of Commerce and Industry, donor supported SME development centres, cooperative organisations etc.

Current and Prospective Assessment

SMEs are already making a significant contribution to economic recovery in Romania. The potential exists for SMEs to play an increasingly important role in generating growth and employment. The SME support structures that are in place provide the basic information and business services. The political commitment towards the stimulation and the development of the SME sector has, however, been slightly hesitant, and it is important to achieve a higher degree of political commitment and coherence in the field over the coming years. It would also be important to strengthen the existing support structures, to undertake efforts to simplify the legal and administrative environment in order to make it more SME-friendly. Efforts to increase SMEs' access to financing are equally essential.

The on-going efforts to strengthen the SMEs during the pre-accession period will therefore need to be continued.

Conclusion

Although there remains a clear need for greater coherence in SME policy, there are no major problems foreseen for Romania's participation in this sector.

3.5 Economic and Social Cohesion

Employment and Social Affairs

Community social policy has been developed through a variety of instruments such as legal provisions, the European Social Fund and actions focused on specific issues, including public health, poverty and the disabled. The legal *acquis* covers health and safety at work, labour law and working conditions, equal opportunities for men and women, social security coordination for migrant workers and tobacco products. Social legislation in the Union has been characterised by laying down minimum standards. In addition, the social dialogue at European level is enshrined in the Treaty (Article 118B), and the Protocol on social policy refers to consultation of the social partners and measures to facilitate the social dialogue.

The Europe Agreement provides for approximation of legislation with Community law and cooperation on improving standards of health and safety at work, labour market policies and the modernisation of the social security system. It also provides for Community workers legally employed in Romania to be treated without discrimination on grounds of nationality as regards their working conditions. The White Paper provides for measures for approximation in all the areas of the *acquis*.

Descriptive Summary

The social dialogue in Romania is developing, though past habits of intervention by government representatives, disregarding the autonomy of the social partners, are hard to eradicate. The social partners themselves, particularly the private sector employers, need to strengthen their structures and insure their familiarity with collective bargaining, in order to play their role fully. Further privatisation may help this process. On the employee side, the four main organisations are members of the European Trade Union Confederation (ETUC). Employers are represented at international level through an umbrella organisation which covers five large employers' structures.

In 1995, the unemployment rate was 8%, but substantial hidden unemployment has to be taken into account and Romania is facing a serious problem of long-term unemployment. In some regions with heavy job losses in traditional industries this group makes up 50% of the unemployed.

Romania has started to develop modern labour market policies, regulations and institutions. This process will have to be pursued for a substantial period.

The Romanian social security system is faced with serious financing problems, partially due to difficulties in collecting contributions. Despite a growing demand for social services, the share of GDP spent on social security is relatively low at 9% (1994 figures). Although the social security system covers the majority of social risks, the actual level of benefits provides inadequate protection against poverty. The current system tolerates significant inequalities between categories of the population. The general administration and organisation of the social security system need to be improved. Continued efforts are required to ensure that measures of social protection are developed.

The situation of the health system is considerably lower than in EU. Communicable diseases are a particular problem. The economic and social conditions have resulted in the disintegration of the health system which cannot cope with the problems.

Current and Prospective Assessment

Romania has made improvements on the approximation to the *acquis* with respect to health and safety at work. Several EC directives have already been transposed. In September 1996 Romania

adopted a new occupational health and safety act laying down the basic principles for the protection of health and safety at work, which was modelled on the EU framework directive. There is little legislation concerning labour inspection standards. But it is expected that a new law on labour inspection in line with EC and ILO standards will be drawn up before the end 1997.

In the area of labour law, it appears that the Romanian labour legislation is not yet in line with EU-provisions in areas such as the safeguarding of employees rights in case of a transfer of their undertaking, in the event of collective redundancies and on the protection of employees in the event of an insolvency of their employer. Adaptations of the existing labour laws are necessary in the areas of the employers' obligation to inform employees about their working conditions as well as in the area of working time. The information and consultation of workers on company level as requested by a number of EC Directives needs to be strengthened.

On equal opportunity, the basic provisions of EC non discrimination law between women and men are covered by Romanian legislation. The laws in favour of women are not always applied in practice, and the material situation of women appears to have deteriorated. Adaptation of the legislation is needed with regard to the protection of pregnant women and with regard to parental leave.

The introduction of the right to free movement for workers will require changes in national law, particularly on the access to employment and non-discriminatory treatment based on nationality.

Concerning the right to the free movement of workers, there would appear to be no obstacles to prevent Romania from being able to implement the provisions of the *acquis* in this area. The introduction of the right to free movement will however require changes in the national law, particularly as regards access to employment and a treatment free from discrimination on grounds of nationality.

In the field of social security for migrant workers, accession does not, in principle, pose major problems although certain technical adaptations will be necessary. More important is the administrative capacity to apply the detailed co-ordination rules in cooperation with other countries. It is not clear whether Romania has the necessary administrative structures to carry out the tasks of co-ordination.

The two directives on warning labelling of cigarettes packages and the maximum tar content have not yet been transposed into Romanian law.

Conclusion

Romania will need to make very considerable progress in the coming years in all areas of social policy and, particularly on health and safety at work, public health and labour market and employment policies. Before Romania will be able to take on the obligations of EU membership in the field of social policy, much remains to be done with regard to both the approximation of laws, and the strengthening of the public administration as well as effective enforcement structures.

Regional Policy and Cohesion

In accordance with Title XIV of the Treaty, the Community supports the strengthening of cohesion, mainly through the Structural Funds. Romania will have to implement these instruments effectively whilst respecting the principles, objectives and procedures which will be in place at the time of its accession.

The Europe Agreement provides for cooperation on regional development and spatial planning, notably through the exchange of information between local, regional and national authorities and the exchange of civil servants and experts. The White Paper contains no specific provisions.

Descriptive Summary

In 1995, Romania's GDP per capita stood at some 23% of the EU average. In terms of regional disparities, data indicates a range from 116% of the national average in Bucharest to 54 % in the southern regions around the capital. A similar regional analysis for employment indicates that the regional disparities are rather less pronounced although differentiation is expected to increase as the process of economic restructuring deepens.

The Romanian Constitution (1991) and the law on local public administration, as revised in 1996, devolved many tasks to the 41 elected county (*judet*) councils (plus the municipality of Bucharest), e.g. the preparation of spatial development concept, economic development planning and investment programmes. At a lower level, the law on local public administration provides for self-governing municipal councils. Romania has 2767 self-governing local authorities (80 urban municipalities and 2686 communes representing 13 000 villages).

Romania does not display a specific regional development policy. However, its spatial planning, under the authority of the Ministry of Public Works and Physical Planning, comprises a comprehensive legal, administrative and operational framework.

The Development Plan includes regional development as one of its main objectives. Indeed, its priority to reduce regional disparities embraces both the socio-economic development of backward regional and spatial planning programmes. Moreover, it identifies public investment programmes (economic infrastructure) and special programmes organised at a national level for specific areas e.g. Western Carpathian Highlands, as being the main instrument to achieve regional cohesion.

At the regional level development strategies were adopted at county level in 1995. They include both regional economic development and spatial planning and are constituted of general orientations, plans and programmes. A new law on spatial and urban planning awaits the approval of Parliament.

Romania's financial instruments at the disposal of regional development initiatives are limited. However, the share of development related expenditures which could constitute potential counterpart funds to EC structural policy cannot yet be determined. Therefore, Romania's co-financing capacity cannot presently be evaluated with sufficient reliability

Current and Prospective Assessment

Though Romania's regional development policy remains basic and incomplete, considerable progress has been made in establishing a spatial planning framework. This experience could prove valuable for Romania when establishing a regional policy specifically in the context of synergy in the areas of law and institution building.

At present there are elements of existing policy which are consistent with the principles and objectives governing the operation of the structural funds. However, there is no comprehensive framework for regional development incorporating policy, legislation and instruments. The implementation of the principles and objectives is rendered difficult because of weak public administration at both a national and local level.

Conclusion

Romania manifests an increasing political awareness of the need for a regional policy. Yet, Romania's administrative capacity to manage EC funds and conduct an integrated regional development policy clearly needs to be improved. Significant work is still required in defining a legal basis, identifying and clarifying the respective roles and responsibilities of existing authorities and strengthening an adequate administrative structure before Romania is able to apply the Community rules and channel the funds from the EC structural policies.

3.6 Quality of Life and Environment

Environment

The Community's environmental policy, derived from the Treaty, aims towards sustainability based on the integration of environmental protection into EU sectoral policies, preventive action, the polluter pays principle, fighting environmental damage at the source, and shared responsibility. The *acquis* comprises approximately 200 legal acts covering a wide range of matters, including water and air pollution, management of waste and chemicals, biotechnology, radiation protection, and nature protection. Member States are required to ensure that an environmental impact assessment is carried out before development consent is granted for certain public and private projects.

The Europe Agreement stipulates that Romanian development policies shall be guided by the principle of sustainable development and should fully incorporate environmental considerations. It also identifies environment as a priority for bilateral cooperation, as well as an area for approximation legislation to that of the Community.

The White Paper covers only a small part of the environmental *acquis*, namely product-related legislation, which is directly related to the free circulation of goods.

Descriptive Summary

Romania faces very severe environmental problems, with particular challenges in all the key areas: water quality, waste management, and air and soil pollution.

The state of water resources raises many concerns: the quality of drinking water is very poor, connection rates to sewage treatment plants are low as is the standard of treatment, ground water pollution is extensive. Much of the water pollution in Romania is caused by nitrates resulting from intensive agriculture. The serious pollution problems of the Danube originate to a significant extent in Romania. Waste is also an area of major concern: waste management legislation is almost non-existent, the concept of hazardous waste has not been defined, and incineration is only intermittently practised. Air pollution is a severe problem, the main sources of emissions being power stations and other industrial plants (especially for heavy metals), motor vehicles and domestic heating. Acid rain has also become a severe problem. The decrease of emissions of pollutants since 1989 is mainly due to the decline in economic activity, but also to efforts to remedy 'hot spots'. Nevertheless, Romania still has valuable areas of unspoiled nature, such as the Carpathian Mountains and the Danube delta (the latter being an area of world value for biodiversity).

Up to now, environmental issues in Romania have not been effectively addressed. Investment is very low, compared to EC levels. and the situation is worsened by the lack of an environmental financing instrument.

An environmental framework law has been introduced (1995) and has given priority to waste management. However, most environmental legislation is quite old. In addition, implementation is poor because of - among other reasons - lack of incentives, old and wasteful production technologies, lack of financing and of human resources and low level of public participation. The new privatisation law requires investors to provide either a financial guarantee or a commitment to meet environmental requirements; it is also expected that a National Environmental Fund, financed by pollution taxes and the State budget will be in place by the end of 1997.

Current and Prospective Assessment

On the whole, very little has been done to date in the field of approximation of environmental legislation to that of the Community. The years 1996/97 have been set as the period for the elaboration of certain environmental instruments, in particular related to legislation included in the White Paper. However, there are no specific plans for the transposition and enforcement of the remaining part of the environmental *acquis*. The situation is particularly serious in solid and hazardous waste management, where legislation is almost non-existent, even though a draft law is under consideration. Much remains to be done also in the area of radiation protection and radioactive waste management, areas where there is a lack of safety culture. Particular attention should be given to the quick transposition of framework directives dealing with air, waste, water and the Integrated Pollution Prevention and Control (IPPC) directive, as well as the establishment of financing strategies for legislation in the water, air and waste sectors requiring major investments.

The situation is also complicated by very low environmental awareness, although participation of NGOs in the process of the development of environmental policy is increasing. There is, therefore, a long way to go in formal compliance with EU requirements in Romania. Actual implementation and enforcement of the environmental *acquis* is even further away, and would necessitate massive investment by both government and enterprises, as well as the development of adequate implementation and enforcement structures. The country's environmental accession strategy should include implementation timetables for meeting the EU environmental *acquis*, starting amongst others with implementation of the framework and IPPC directives mentioned above.

Conclusion

In order to embark on a path of adaptation to the EU *acquis*, Romania would have to place higher priority on environmental issues, implement focused environmental accession strategies and work programmes, significantly increase related financial and other resources and develop its administrative capacity. If such a strategy is followed, full transposition of the *acquis* could be achieved in the medium to long term. However, effective compliance with a number of pieces of legislation requiring a sustained high level of investment and considerable administrative effort (e.g. urban waste water treatment, drinking water, aspects of waste management and air pollution legislation) could be achieved only in the very long term.

Consumer Protection

The Community *acquis* includes protection of consumers' economic interests (including controls on misleading advertising, indication of prices, consumer credit, unfair contract terms, distance selling, package travel, sales away from business premises and timeshare property) as well as general safety of goods and the specific sectors of cosmetics, textile names and toys.

The Europe Agreement provides for approximation of legislation with Community law and cooperation with a view to achieving full compatibility between the systems of consumer protection in Romania and the Community. Stage I measures of the White Paper focus on improving product safety, including cosmetics, textiles and toys, and on the protection of the economic interests of the consumer, notably measures on misleading advertising, consumer credit, unfair contract terms and indication of prices. Stage II measures relate to package travel, sales away from business premises and time-share property. New EU legislation which has been adopted recently (distance selling) or will be adopted soon (comparative advertising, price indication) will also need to be taken into account.

Descriptive Summary

Since 1992, Romania has developed a comprehensive institutional framework for dealing with consumer policy. Inspired by UN Guidelines on the subject, the Consumer Protection Act sets out the main rules and establishes the Office for Consumer Protection (OPC). This is a state body, which is not independent, with fourteen regional branches, responsible for coordinating and implementing policies on consumer policy. In addition, the OPC organises the Consumer Consultative Councils which are made up of representatives from state bodies, consumer groups and industry, both at national, county and local level.

As a result of the OPC's efforts to encourage grassroots consumer groups, the consumer movement in Romania involves a large number of NGOs, including the Association for the Protection of Consumers. There are occasional tensions between the consumer groups and the OPC which identifies the groups entitled to participate in the consultation process. The majority of the more than nearly hundred consumer associations are small local groups, often linked to one of the sixteen regional federations. There is one national federation.

Current and Prospective Assessment

The existence of the Consumer Protection Act means that most areas of consumer protection are partially regulated. But since the Act provides only the framework, there is still a need for specific legislation to cover EC requirements.

On the protection of economic interests of consumers, additional legislation is required in certain areas, such as the indication of prices, sales away from business premises, distance selling, timeshare property, unfair contract terms and consumer credit. In some cases, the Romanian harmonisation programme already provides for drafts while for other sectors such as distance selling, there appears to be no planned initiatives. Concerning package travel, draft legislation is apparently under preparation, and draft laws which would bring Romanian rules on misleading advertising into line with EC standards are under discussion.

On general product safety, Romanian legislation appears to be quite close to the principal EC directive. The Romanian harmonisation programme provides for the elaboration of several drafts covering the main sectors of EC consumer legislation.

The development of a strong and independent consumer movement, sustained by public authorities, will need to accompany the introduction of the *acquis*.

Conclusion

Romania has taken the approximation process quite far. Although the Government still needs to put through various amendments or new draft laws, the Romanians are close to meeting EC standards on consumer protection. But there are likely to be problems about the effective application of the *acquis*, particularly since the lack of resources makes it difficult for Romania to enforce existing legislation.

3.7 Justice and HomeAffairs

The Present Provisions

The Justice and Home Affairs (JHA) *acquis* principally derives from the framework for cooperation set out in Title VI (Article K) of the Treaty on European Union (TEU), "the third pillar", although certain "first pillar" (EC Treaty) provisions and legislative measures are also closely linked.

The EU JHA framework primarily covers: asylum; control of external borders and immigration; customs cooperation and police cooperation against serious crime, including drug trafficking; and judicial cooperation on criminal and civil matters. The TEU stipulates key principles upon which such cooperation is based, notably the European Convention on Human Rights and the 1951 Geneva Convention on the Status of Refugees. It is also based implicitly on a range of international conventions concerning its fields of interest, notably those of the Council of Europe, the United Nations and the Hague Conference. The legislative content of third pillar *acquis* is different from the first pillar; it consists of conventions, joint actions, joint positions and resolutions, (including the agreed elements of draft instruments which are in negotiation). A number of EU conventions (including the 1990 Dublin Convention, and conventions relating to extradition, fraud and EUROPOL) have been agreed by the Council and are now in the process of ratification by national Parliaments; several other conventions, including one on external frontiers are in various stages of negotiation in the Council. The JHA *acquis* involves a high degree of practical cooperation, as well as legislation and its effective implementation.

The New Treaty

For many of the above matters, the entry into force of the Treaty resulting from the Amsterdam Intergovernmental Conference will mark the end of the current cooperation framework.

Reiterating the objective of developing the Union into an “area of freedom, security and justice”, the new Treaty brings these matters, including the free movement of persons, asylum and immigration, into the Community’s sphere of competence.

On the free movement of persons in particular, the new Treaty provides for the incorporation of the Schengen *acquis* into the framework of the European Union and binds any candidate for EU membership to accept that *acquis* in full.

With regard to matters remaining within the cooperation framework, i.e. policing and criminal justice, the new Treaty provides for the reinforcement of the cooperation system.

The Europe Agreement and the White Paper

The Europe Agreement includes provision for cooperation in the fight against drug abuse and money laundering.

The White Paper does not deal directly with third pillar subjects, but reference is made to first pillar matters such as money laundering and freedom of movement of persons which are closely related to Justice and Home Affairs considerations. Reference is also made to the Brussels and Rome conventions.

Descriptive Summary

General Preconditions for JHA Cooperation

Romania joined the Council of Europe in 1993 and has ratified the most important instruments concerning human rights. The Constitution provides for an independent judiciary according to the rule of law.

Institutional reform has still to take root in Romania. A new administrative culture has yet to develop in most JHA institutions in Romania. Its size and position poses a particular challenge to Romania. Romanian data protection legislation is rudimentary and Romania has not ratified the Data Protection Convention. (See also separate section on Single Market).

Asylum

Romania ratified the Geneva Convention and Protocol in 1991 and put in place domestic implementing legislation in 1996, which meets many but not necessarily all of the provisions of the Conventions. The law contains provision for temporary protection. The key administrative procedures for dealing with refugees and asylum seekers are in place and a special office for dealing with this has been created. However, it is under-resourced and the staff need more experience in handling asylum issues and applications. There have been 400-500 applications for asylum for the last two years, mainly from Asian countries.

Immigration/Border Control

Romania estimates there are some 18 000-20 000 illegal immigrants from Asia and Africa on its soil. Organised crime is involved in human trafficking. As a consequence of unsatisfactory visa, admission and border control policy, in the early 1990s the EU placed Romania on the list of third countries for which visas are required. Romania has now adopted the EU third country list, having suspended its visa-free agreements with 17 countries. The authorities have taken steps to reform visa-issuing procedures, to verify invitation letters, and tighten up passport-issuing procedures. A new law on foreigners is in preparation, aiming to tackle illegal immigration, clandestine labour, deportation of illegal migrants and to tighten up the residence regime. Readmission agreements are in place with 15 countries. Romania is also working to improve its border management systems; information networks are limited and the frontier guard remains largely unreformed.

Police Cooperation

Organised crime is substantial, and particularly prevalent in the economic and financial spheres. It also includes trafficking in women, arms and radioactive material, drug trafficking, counterfeiting, stolen cars, racketeering and human trafficking. There are significant links between Romanian criminals and foreign groups. Romania is working to bring its laws tackling organised crime into line with EU standards, for example, by revising the criminal and civil procedure codes and seeking to tackle corruption within the public services. Considerable work needs to be done to professionalise the police. The Police Brigade for Combating Organised Crime takes the lead in law enforcement and has a special unit dealing with financial crime. The Ministry of Finance (Customs and Finance Guard) is also developing expertise. Romania has not signed the international money laundering conventions.

A draft law on the matter is being considered. Understanding of the nature and scale of money laundering and the mechanisms needed to tackle it effectively is limited. (See also separate section on Single Market). Romania experiences no internal terrorist threat but is concerned about the use of its soil by international terrorists. It has signed the key terrorist conventions and has adopted appropriate legal and administrative measures to tackle terrorism.

Drugs

Romania is an important distribution centre for drugs and a transit country in the Northern Balkan drugs transit route. Drugs, mainly from Asia but also Africa, enter Romania largely through the Danube ports and tourist buses. Local use is limited in scale but consumption, including of synthetic drugs, is growing. Romania's drugs prevention and supply reduction policies are still at an early stage of development. The Government is planning to set up an Inter Ministerial committee for the fight against drugs. It will oversee a coordinated national strategy to tackle drug addiction and drug trafficking. Romania has ratified the main drugs conventions (except money laundering). Plans are in hand to change key elements of the law relating to drugs in order to bring it into line with EU requirements (for example on drug precursors and money laundering). Specialist drugs units are in place in the police and customs. Romania has ratified the 1961 and 1971 UN conventions on drugs.

Judicial Cooperation

Romania has signed, but not ratified, the key international criminal conventions. It has limited experience of judicial cooperation with EU countries and EU law. The criminal code allows judicial cooperation, but Romanian citizens cannot be extradited (as in some EU member states). Judicial cooperation is permitted under the civil code. Romania intends to accede to the Lugano Convention and in 1992 adopted a law broadly in line with this convention. Romania has also adopted the 1980 Hague Convention on child abduction. The judiciary is heavily overloaded and requires improvements to its functioning to ensure the efficient handling of cases, in accordance with the Constitution.

Current and Prospective Assessment

Romania has made some progress in meeting the EU *acquis* in the area of asylum, but progress in other areas is limited. Accountability of the JHA authorities is in place formally, but the level of public scrutiny is, in practice, limited and prosecution of abuses rare. Romania's JHA institutions and the judiciary are at an early stage in the reform process. There is only very limited experience at official level of JHA cooperation with EU countries.

Long-standing problems exist in the field of immigration, visa and border control policy which are only now being addressed. Organised crime is a particular problem and implementing mechanisms and instruments to address it are still at an early stage. Drug trafficking is a serious problem which is not effectively under the control of the authorities.

Conclusion

Romania faces particular challenges in the JHA area. Until now it has made only limited progress towards meeting the necessary conditions of the JHA *acquis*. It will be difficult to meet the *acquis* (present and future) requirements in the medium term. The necessary progress in this field is dependent on a more general institutional reform which derives from the political process.

3.8 External Policies

Trade and International Economic Relations

The *acquis* in this field is made up principally of the Community's multilateral and bilateral commercial policy commitments, and its autonomous commercial defence instruments.

The Europe Agreement includes provisions in several areas requiring parties to act in accordance with WTO/GATT principles, or other relevant international obligations.

The White Paper includes no provisions in this field.

Descriptive Summary

Romania is a member of the World Trade Organisation (WTO) and the GATT Civil Aircraft Agreement. Upon accession Romania would have to comply with the obligations of the multilateral WTO agreements to which the Community is a party.

At present Romania does not maintain quantitative restrictions on any textile or clothing products. On accession the Community textiles policy would be extended to Romania; any Community restrictions still maintained at the date of accession would require adjustment by an appropriate amount to take account of Romanian accession.

Romania maintains balance-of-payments restrictions which will have to be phased out prior to accession.

Current and Prospective Assessment

On accession Romania would have to apply the Community's Common Customs Tariff, and the external trade provisions of the Common Agricultural Policy. The post- Uruguay Round weighted average level of most favoured nation duties for industrial products will be 33.9% for Romania and 3.6% for the Community, although in practice Romania's average applied duty is 20%. The progressive implementation of free trade between Romania and the Community by the time of accession will, however, reduce the impact on the domestic industry of applying the lower Community Common Customs Tariff.

In its relations with international organisations Romania should ensure that its actions and commitments respect the Europe Agreement and ensure a harmonious adoption of its future obligations as a member of the Community.

On accession Romania would become party to the Community's various preferential agreements. Preferential agreements between Romania and third countries would, in general, have to be terminated on accession.

Romania's export restrictions on ferrous scrap are due to be eliminated by the end of 1997.

In the area of trade in services and establishment, Romania has sought to ensure that its multilateral commitments under the GATS are as consistent as possible with those of the Community. It will be important that any significant inconsistencies between Romanian and Community commitments are resolved.

On accession Romania would have to repeal national legislation in the field of commercial defence instruments, and EC legislation would become applicable there.

Experience from previous accessions has shown that the automatic extension of existing anti-dumping measures to new Member States prompts third countries to raise problems in terms of the compatibility of this approach with relevant WTO provisions. It has also shown that accession creates a potential for circumventing measures adopted by the Community under the commercial defence instruments. This happens when, prior to accession, substantial quantities of the products subject to measures are exported to the territory of the future member state and, on accession, are automatically released for free circulation in the enlarged customs territory. These two problems would have to be addressed during Romania's pre-accession phase.

Romania is a member of three out of four existing regimes for the non-proliferation of weapons of mass destruction, and is a candidate for admission to the fourth. Romania has not yet adopted the Community control list of dual-use items. Arms export is also controlled. It is difficult to assess the extent to which export controls are effectively enforced, and whether certain reservations are justified, but Romania appears to have no major problems applying EC legislation in this field.

Conclusion

Romania should to be able to meet Community requirements in this field in the medium term, provided that they reinforce their efforts to eliminate existing trade barriers in order to align themselves more closely with the Community trade regime.

Development

The *acquis* in the development sector is made up principally of the Lomé Convention, which runs until early 2000.

Neither the Europe Agreement or the White Paper include provisions in this field.

Descriptive Summary

Romania has a number of preferential trade agreements with non-ACP less developed countries, but no such schemes with ACP countries. No GSP schemes apply, and no duty free access is granted.

Romania has no budget for development aid, although it has contributed to some developing programmes of the UN agencies.

Current and Prospective Assessment

On accession, Romania should apply its preferential trade regime to the ACP States and participate, together with the other member states, in financing the European Development Fund (EDF), which provides financial aid under the Lomé Convention.

Romania could confront some difficulties in applying the present Lomé trade regime integrally from the date of accession.

Normally, new member states accede to the Lomé Convention by means of a Protocol on the date of their accession to the EU.

Conclusion

Romania will need to make further progress if it is to meet EU requirements in this field within the next few years.

Customs

The *acquis* in this sector is the Community Customs Code and its implementing provisions; the EC's Combined Nomenclature; the Common Customs Tariff including trade preferences, tariff quotas and tariff suspensions; and other customs-related legislation outside the scope of the customs code.

The Europe Agreement covers the establishment of a free-trade area with the Community and the progressive removal of customs duties on a wide range of products, according to clear timetables starting from the date of entry into force of the agreement.

The White Paper includes in Stage I, measures to consolidate and streamline the free trade established under the Europe Agreement, including legislation compatible with the Customs Code, Combined Nomenclature, etc. Stage II concerns the adoption of the full Community legislation, with a view to joining the customs union upon accession.

Descriptive Summary

On accession the Romanian customs authorities would be required to assume all the responsibilities necessary for the protection and control of their part of the EU's external border. Besides the provisions on indirect taxation, they would be responsible for the implementation and enforcement at the external border of the Community's common commercial policy, the common agricultural policy, the common fisheries policy etc.

Romania's capacity fully to apply the *acquis* presupposes the possibility to adopt and implement Community legislation; and the existence of an adequate level of infrastructure and equipment, in particular in terms of computerisation and investigation means and the establishment of an efficient customs organisation with a sufficient number of qualified and motivated staff showing a high degree of integrity.

With the support of the technical assistance provided by customs programmes, Romania has drafted a customs code harmonised with the Community's customs code, but it has not yet passed to Parliament. In addition, Romania has drafted legislation on counterfeit and pirated goods based on EU legislation. Romania's customs legislation still differs in some areas.

Romania aligned its national goods nomenclatures on the Community's Combined Nomenclature in 1996. The Romanian administration does not yet have an integrated tariff. This will make the comparison of the Romanian tariff rates with the Common Customs Tariff rates difficult. Romania is not yet familiar with the Community's Binding Tariff Information system.

Romania adopted on 31 January 1997 the new system of cumulation of origin between European countries.

Romania has applied to become a contracting party to the EC/EFTA Conventions on Common Transit and on the Single Administrative Document. A task force is providing assistance in this field, but development is hindered by difficulties in the area of guarantees. Accession to the Transit Convention will require a period of considerable further preparation.

Current and Prospective Assessment

Romania would need to adapt its national procedures to the Community's legislation regarding suspensive arrangements and customs procedures with economic impact. At the moment of accession, some transitional arrangements would be needed, notably for operations beginning before the date of accession but which are concluded after that date.

In its trading relations with the European Community, Romania should fully abolish the remaining charges having equivalent effect to customs duties such as the customs modernisation charge, which is still applied; Romania has committed to phasing this charge out by 1 January 1998.

It will be important that the Romanian customs authorities can participate appropriately in the various computerised systems necessary for the management, in the customs union/internal market, of the customs and indirect tax provisions, as well as the computerised systems for mutual administrative assistance in customs, agricultural and indirect tax matters.

Romania would need on accession to dismantle customs controls at the border with EU member states and with other acceding countries. The resources needed for the reinforcement of the border posts along its frontiers with non-EU states should be taken into account in its strategic planning.

Conclusion

The Romanian customs administration is in the process of reorganisation. It will be necessary to align the organisation to the duties that have to be carried out by a modern customs organisation. Low salaries make it difficult to recruit staff.

It seems unlikely that Romania will be ready to fulfil the responsibilities of an EC customs administration within the next few years.

Common Foreign and Security Policy

Since 1989, Romania has reoriented its foreign and security policy towards European and Euro-Atlantic integration. Romania has been an active participant in the arrangements provided for under the Union's Common Foreign and Security Policy and when invited has supported EU actions within that framework. Romania is a member of the UN, OSCE, Council of Europe and many other international organisations. It is an associate partner of WEU, participates in the NACC, the PfP and has made clear its desire to become a member of the WEU and NATO as soon as possible. It has participated in IFOR/SFOR. Romania supports and participates in a number of regional organisations including the Black Sea Economic Cooperation, the trilateral arrangements with Bulgaria and Greece, and the CEI. It also became a member of CEFTA on 1 July 1997.

There are no territorial disputes between Romania and any member State of the Union. Neither does Romania have any territorial disputes with neighbouring associated countries. Romania and Hungary have agreed a treaty on the inviolability of their respective borders and on pursuing international standards for the treatment of minorities. Relations in the past have been troubled by differences with regard to the treatment of the Hungarian minority in Romania but have improved significantly.

Relations with the Federal Republic of Yugoslavia stagnated during the period of armed conflict in the former Yugoslavia, when Romania adhered to the sanctions regime imposed by the UN Security Council, but a Treaty on Friendship and Good Neighbourliness was signed in 1996.

In May 1997, Romania and Ukraine initialled a treaty of good-neighbourly relations which resolved a number of bilateral issues, and exchanged letters setting the terms for the resolution of issues not included in the treaty. These include the border regime between the two countries, the transit regime in the Danube delta, the delimitation of the continental shelf and of the exclusive economic zone around Snake Island.

Relations between Romania and Moldova are normal but the finalisation of a treaty may still be complicated by certain cultural issues.

Romania has a sizeable diplomatic service which would permit it as a member of the Union to play a full and effective role. It maintains 96 representations abroad and employs 765 diplomatic staff.

Romania supports non-proliferation of nuclear, biological and chemical weapons and is a signatory to all relevant international arms control agreements. It exercises strict control concerning the dual use of technology being a member or candidate member of all the major existing export control regimes. The Romanian armed forces, which are under democratic control, are being reorganised to meet NATO requirements. The defence industrial base has suffered from a number of major problems and is also in the process of re-organisation.

In the memorandum accompanying its application for membership of the Union, Romania confirmed that it was ready and able to participate fully and actively in the Common Foreign and Security Policy.

The assessment of Romanian foreign and security policy to date leads to the expectation that as a member it could effectively fulfil its obligations in this field.

3.9 Financial Questions

Financial Control

The implementation of Community policies, especially for agriculture and the Structural Funds, requires efficient management and control systems for public expenditure, with provisions to fight fraud. Approximation of legislation is moreover needed to allow the system of "own resources" to be introduced, with satisfactory provision for accounting.

The Europe Agreement contains no specific provisions on financial control. However, it provides for cooperation in audit. The White Paper includes no measures in this field.

Descriptive Summary

The Romanian Court of Auditors set up in 1992 carries out mainly external controls. Audits concern organisation, administration and management of state resources and of public property. The Court reports to Parliament for every budgetary year.

Financial Control (FC) with 980 staff and State Finance Guard (SFG) with 1497 staff, set up in 1991 within the Ministry of Finance, carry out internal controls. All economic entities (either public or private) are subject to such controls. FC effects both a preventive and a *posteriori* financial control which might also concern sound financial management. It is foreseen that the same system of financial control will be applied to future Community funds as for national funds.

The customs administration is responsible for the establishment and collection of import duties and taxes. The administration consists of a directorate general, at the level of the Ministry of Finance, and 10 directorates including a financial control service. Furthermore there are 10 regional directorates and 101 local offices.

With regard to fraud, the Laws No 12/1990 and No 87/1994 provide for a system of sanctions for punishing actions against the financial interests of the State. Fraud is regulated by the Criminal Code and by procedures foreseen in the Criminal Procedural Code.

Furthermore, FC and SFG receive information and participate in international organisations concerning money laundering and exchange experience with similar organisation in other countries.

Although there is no one central body responsible for the fight against fraud in Romania, amongst those authorities responsible are the Ministry of Justice, the Public Prosecutors Office in general, the Ministry of the Interior, the Ministry of Finance, the National Bank of Romania and the National Property Valuation Commission.

Current and Prospective Assessment

Romania's structures compare only to a limited extent to the Community model which has two separate "branches" as the Romanian Court of Auditors carries out *ex ante* controls and is not really an external control institution.

The Romanian customs legislation seems to have a certain similarity with the Community legislation as far as incurring the customs debt is concerned, but is not fully compatible with the EC legislation.

The accounting provisions should be more detailed in order to ensure compatibility with the requirements of Regulation (EEC) No 1552/89. Further cooperation with the Commission will be needed on a number of issues in order to determine the conformity to the *acquis*, but Romania seems to meet the general principles for having established, concerning agricultural subsidies and structural funds, a control system that is suitable for the necessary adjustments.

However, there is little experience of implementation of current Romanian legislation in this area, and there is a need to establish sufficiently reliable administrative structures.

Conclusion

Major efforts are essential to strengthen internal financial control functions.

Budgetary Implications

The communication entitled “Agenda 2000” sets out the overall financial framework which should accommodate the budget impact of any future enlargements in the medium term. This is to ensure that any enlargement is compatible with proposed Community policy guidelines within reasonable budget limits.

As things stand, it would be difficult, not to say premature, to attempt precise country-by-country evaluations of the budgetary implications of each of the applicants joining the Union. Exactly what the impact would be may vary considerably depending on a whole series of factors:

- the date on which the applicant country joins;
- developments in Community policies between now and then, in particular the decisions to be taken on further reform of the common agricultural policy and new guidelines for structural measures;
- the progress made by the applicant countries in terms of growth, increasing their competitiveness and productivity and their ability to absorb the *acquis*;
- the transitional measures that will come out of the negotiations.

Only a few orders of magnitude for certain budget categories and an overall estimate can be given purely as a guide.

Expenditure

If the common agricultural policy were to be reformed along the lines suggested by the Commission, once the reforms were fully up and running and in terms of just market intervention measures, Romania’s accession would give rise to additional expenditure of about 2-3% of the corresponding expenditure forecast for the present fifteen Member States.

After a phasing-in period, the allocations to Romania for structural measures would probably be no more than about 4% of its GNP.

Application of the other internal Community policies in the new member countries would be likely to involve additional expenditure probably in excess of their relative proportion of Union GNP, since for certain policies the additional implementing costs also depend on the target population, the geographical area covered or the number of Member States involved in the coordination and harmonisation measures. By way of example, Romania’s GNP is currently 0.3% of the total Union GNP.

By contrast, Romania’s accession should not involve significant additional expenditure as far as Union external action is concerned.

It should not be forgotten that when an applicant country joins, the Community budget will no longer have to bear the costs of grants the country was eligible for under the various pre-accession programmes, such as Phare.

In light of the above, the estimated costs of Romania’s accession in the three areas mentioned above should fall within the range of, annually, ECU 2.1 to 2.5 billion in 2005-06 (at constant 1997 prices).

Revenue

Assuming full application of the own resources system, the new members' contributions to the Community budget should, in terms of total GNP and VAT resources (taking account of the capping rules applying to VAT), be close to the proportion of the Union's GNP they account for, which in Romania's case is about 0.3%. Romania's portion of traditional own resources will depend on the structure of its trade flows at the time of accession.

To ensure that the own resources are established, monitored and made available in line with Community regulations, Romania will have to overhaul its current customs system. In addition, for the purposes of accurately calculating the GNP resource considerable improvements will have to be made to the national accounts to ensure that they are reliable, homogeneous and complete. Improving the statistics will also be essential for drawing up the VAT own resources base, which will mean bringing Romania's VAT system fully into line with the Community directives.

4. Administrative Capacity to Apply the *Acquis*

The European Council in Madrid in December 1995 concluded that the harmonious integration into the EU of the central and eastern European applicant states would, in particular, require the adjustment of their administrative structures. This chapter examines the current state of the public administration in Romania, including relevant aspects of the judicial system, and assesses the current and prospective ability to carry out the functions required of it in a modern, democratic state, with a particular focus on the need to administer matters related to the *acquis*.

4.1 Administrative Structures

A description of Romanian constitutional structures, their powers and responsibilities, including those of regional and local government, is given in Chapter 1.

At the central level there are 15 ministries, in addition to the Prime Minister's Office, a State Ownership Fund and various inspectorates. A Department for European Integration is part of the Prime Minister's Office.

A law on the status of civil servants is under preparation. It is planned to come into force in 1998.

The present government has stated its commitment to the political independence of the civil service; a degree of politicisation was carried out by the previous government, but this is now being reversed. The new law is planned to cover the question of independence.

In 1996 there were about 12 000 civil servants in the central administration. Throughout the country there were a further 114 000, including local government employees. Pay levels in the private sector are considerably higher than in the civil service.

The present government rapidly made public administration reform one of its priorities. All ministries are required to produce an internal reorganisation plan. The reform of local government was, additionally, one of the main elements of the government's election manifesto.

The Department for European Integration performs the central coordinating role on EU matters. It is headed by a minister under the authority of the Prime Minister. There is also an Interministerial Committee for European Integration chaired by the Prime Minister. Within each ministry there is a special unit with particular responsibility for European integration. (See also the section of the Introduction concerning relations between the European Union and Romania).

4.2 Administrative and Judicial Capacity

Romania was administered under central planning during the Communist period. The Communist system rejected the primacy of the rule of law and subjugated the law and the administration to the implementation of Party policy. Against this background, both the administration and the rule of law itself increasingly came to be seen by the public as instruments of political control.

The overall structure of the Romanian public administration is not yet adequately adapted to the tasks required of it, but the reforms set in hand may well change this quite quickly.

Across the system there is a problem of poor implementation of existing laws and regulations. Strategic planning and analysis is also a particular weakness.

The lack of a legal basis for the civil service is a problem, both in respect of its political independence, and more widely. However, if the new civil service law is introduced in the planned timetable a resolution may be reached early in 1998.

The central administration is overstaffed. However, some ministries suffer staff shortages, particularly in the area of qualified personnel. Salaries in the private sector are much higher than in the public sector. This has led to an element of "brain drain" to the private sector, although the main effect at the moment is to hinder recruitment more than retention of staff.

Public confidence in the civil service is low. There can be little doubt that much of the distrust which exists arises from the widespread corruption in the public administration. The President's anti-corruption campaign has attracted popular support.

The present government's emphasis on reform is welcome. But it is still too early to say whether the ambitious plans will be translated into reality. The concept of the civil service as a profession is still developing. Training in good administrative practice is limited and sporadic. The mechanisms for personnel management are missing or inadequate. The effectiveness of the civil service is also hindered by an unwillingness to take personal responsibility for decisions, with the result that these are passed too high up the chain of command, causing overload on senior staff, and delay.

The approach taken to EU matters, with the Department of European Integration and associated structures, is a sensible one. A continued development and reinforcement of this general approach will be necessary.

Key Areas for the Implementation of the Acquis

The uniform application of EC law: The effective application of the *acquis* presupposes that the judicial authorities of member states are able to apply the provisions of the Treaty dealing with ensuring the unity and application of the *acquis*, and are able to ensure the proper functioning of the Single Market and Community policies in general. A high quality and well trained and resourced judiciary is necessary for the application by the courts of EC law, including cases of direct effect, and cases of referral to the European Court of Justice under the terms of Article 177 EC.

The judicial system in Romania has important weaknesses, particularly concerning resources, and relevant expertise. Given this situation, the Commission has significant doubts about the ability of the system to assure the effective application of the *acquis*.

Single market: The ability of Romania to ensure the correct application of Community requirements in the Single Market, particularly concerning the free movement of goods and services presupposes the existence of highly developed and effective regulatory, standardisation, certification and supervisory authorities, able to act fully in accordance with EC rules. An analysis of these points is made in Chapter 3.1 (under "The Four Freedoms").

Concerning the administrative capacity in respect of free movement of goods the situation in Romania is unsatisfactory. Romania has yet to complete the necessary separation between the regulatory, standardisation and certification functions. It suffers from a lack of coordination, equipment and suitable manpower. Concerning free movement of services the situation is not yet

satisfactory, but progress has been made in certain areas, such as banking. Remedies of the Supervision Department of the National Bank (70 staff) have to be enforced through the judiciary. The National Office for Insurance Supervision has a staff of 14. It is not equipped to exercise effective supervision in a rapidly expanding sector. For securities, the National Commission for Supervision is more adequately staffed (70 staff).

In order to meet EC requirements in this area more resources will have to be devoted to the various supervisory and regulatory functions.

Competition: As explained in Chapter 3.1 (under “Competition”) enforcement of competition law requires the establishment of anti-trust and state aid monitoring authorities, and that the judicial system, the public administration and the relevant economic operators have a sufficient understanding of competition law and policy.

In Romania the central authority is the Competition Council which has 63 staff; this is adequate. The level of expertise is acceptable. The ability effectively to implement EC requirements in this field will require further investment in human resource development (where considerable efforts have already been made), improvements in transparency, and the clear delineation of functions from the state-controlled Competition Office (with 365 staff).

Telecommunications: In order to formulate and implement the many liberalisation regulations contained in the *acquis* in this field it is necessary to have a regulatory and policy making body that is effectively separated from any operating company.

A new National Regulatory Agency is planned to take up full functions in 1998. This should help to improve the administrative capacity, which is currently insufficient.

Indirect taxation: The effective administration of the indirect taxation *acquis* presupposes structures capable of implementing the EC legislation concerning the harmonisation of Valued Added Tax and excise duties in an environment in which fiscal controls at internal EU frontiers have been abolished; and the excise system is based on the tax warehouses, duty being payable at the local rate in the member state at the time the goods are consumed. This requires a highly developed and well trained and resourced service, with a high degree of integrity.

In Romania the relevant authority is the Ministry of Finance (a central Ministry and 41 regional offices) with about 20 000 staff (Customs and Excise officers). Around 50 000 staff would be required, but there are recruitment difficulties. VAT on imports is collected by the customs service (4,500 staff), and excise by the Financial Guard (1,110 staff). Due to a large turnover of staff, resulting partly from trained staff being recruited by the private sector, it is difficult to assess the capacities of existing staff. In order to ensure the effective administration of the *acquis* in this area it will be necessary to make a major effort to ensure adequate staffing levels and professionalism, including training measures and increases in pay.

Agriculture: The administrative requirements in the agricultural area primarily concern veterinary and plant-health control, to protect public health and ensure the free movement of agricultural goods; and the ability to administer the mechanisms and requirements of the CAP, including high standards of financial control and official statistics. These points are dealt with in Chapter 3.4 (under “Agriculture”); general standards in the statistical field are examined in Chapter 3.3 (under “Statistics”).

Concerning the administrative capacity in respect of veterinary and plant-health controls, in Romania these are not in accordance with EC requirements, particularly in respect of inspection of live animals and animal products. There are 5,000 veterinary inspectors. Numbers of staff in the food inspectorate are not currently available to the Commission. Concerning the administration of general CAP requirements, improvements in the current administrative structures will be required.

In order to meet EC requirements in this area, major improvements will be necessary.

Transport: The application of the EU internal market and competition requirements to the transport sector, the development of relevant infrastructure products, and other aspects of the transport *acquis* will present administrative challenges to new member states.

The responsible government authority in Romania is the Ministry of Transport (347 staff). There is a shortage of qualified staff. This raises particular concerns with regard to enforcement of safety controls, in a context where safety issues are already a concern.

Employment and social policy: A central administrative requirement in respect of the *acquis* in this area is adequate inspection capacity, particularly concerning health and safety at work.

In Romania the labour inspectorate has about 300 staff, and requires considerable reinforcement of staff resources and expertise.

Regional policy and cohesion: The main administrative requirements in this area are the existence of appropriate and effective administrative bodies, and in particular a high degree of competence and integrity in the administration of Community funds.

Romania does not have a specific regional development policy. The situation concerning financial control is not satisfactory (see the section, below, on "Financial control"). The effective administration of the *acquis* in this area will require significant work in various areas, including the creation of an appropriate administrative structure.

Environment: Because EC environmental policy, involves the integration of environmental protection into EC sectoral policies the administrative requirement is potentially very wide, affecting many bodies not normally associated with environmental protection. However, the main responsibility lies with environment ministries and various subsidiary bodies.

In Romania the Environment Ministry employs 200 staff. Monitoring is carried out by the Research and Environmental Engineering Institute, enforcement by the Ministry, the State Inspectorate, and 41 county agencies. These arrangements are not adequate since environmental awareness is very low, and the current structures are inefficient. The effective administration of the *acquis* in this area will require massive investment, combined with a redefinition of administrative responsibilities and targeted training courses.

Consumer protection: In this area, the effective administration of the *acquis* requires the allocation of overall responsibility to a specific state body through which the formulation, implementation and enforcement of consumer policy and consumer protection legislation can be undertaken.

In Romania, a specific consumer protection body, the Office for Consumer Protection (688 staff), has been created which reports directly to the Prime Minister. As regards non-governmental consumer bodies these remain far too weak. There remains confusion about the exact scope and objectives of consumer policy. This in part explains difficulties in the effective enforcement of consumer laws; however, other factors which need to be addressed include a lack of expert staff, organisational deficits, and a lack of sensitivity to consumer questions among the judiciary.

Justice and home affairs: Oversight of justice and home affairs questions falls to justice and interior ministries. The administrative structures need to be able to deal effectively with asylum and migration questions, border management, police cooperation and judicial cooperation. There is an overriding need for sufficient and properly trained staff with a high degree of integrity.

In Romania the justice and interior ministries are adequately staffed. The capacity to handle asylum and migration questions is not yet assured; administrative procedures are in place for dealing with refugees, though the system is under-funded and under-staffed. Border management systems are inefficient, though reforms are planned. The police service needs to be restructured to better tackle organised crime. Judicial cooperation is limited and the judiciary currently does not function adequately. The effective administration of the *acquis* in this area requires considerable investment in technical and human resources (especially training), improved accountability of JHA actors, and urgent steps to combat corruption.

Customs: Applying the *acquis* in this area requires an adequate level of infrastructure and equipment, including computerisation and investigation resources, and the establishment of an efficient customs organisation with a sufficient number of qualified and motivated staff showing a high degree of integrity.

In Romania the customs service employs 4 600 staff. Due to a high turnover of staff, it is difficult to estimate their efficiency, and therefore the adequacy of staffing levels. The effective administration of the *acquis* in this area will require greater resources (in particular in training and modern management), and steps need to be taken urgently to tackle corruption.

Financial control: The protection of the Community's financial interests requires the development of anti-fraud services, training of specialised staff (investigators, magistrates) and the reinforcement of systems of specific cooperation. The implementation of Community policies, especially for agriculture and the Structural Funds, requires efficient management and control systems for public expenditure, with provisions to fight fraud. Administratively it is essential to have a clear separation between external and internal control. Police and judicial authorities need to be able effectively to handle complex transnational financial crime (including fraud, corruption and money laundering) which could affect the Community's financial interests.

In Romania the main external control body is the Romanian Court of Auditors. The number of staff employed is not currently available to the Commission. The effective administration of the *acquis* in this area will require major efforts to ensure that efficiently functioning administrative structures, properly resourced, are in place.

4.3 General Evaluation

Romania's administrative structures will require a major, concerted and sustained effort of reform if there is to be adequate capacity in the medium term effectively to administer the *acquis*.

Concerning the judicial capacity effectively to apply Community law, definitive evaluation at this stage is difficult.

C. SUMMARY AND CONCLUSION

Romania submitted its application for membership of the European Union on 22 June 1995. Its request is part of the historic process of ending the division of Europe and consolidating the establishment of democracy across the continent.

In accordance with the provisions of Article O of the Treaty, the Commission has, at the request of the Council, prepared an Opinion on Romania's request for membership.

Romania's preparation for membership is going forward notably on the basis of the **Europe Agreement** which entered into force in February 1995. Implementation of the **White Paper** of May 1995 on the Internal Market, another essential element of the pre-accession strategy, is going ahead on the basis of a harmonisation programme revised by the new government. The government has also reinforced the mechanisms for coordinating its policies for European integration.

In preparing its Opinion, the Commission has applied the **criteria established at the Copenhagen European Council** of June 1993. The Conclusions of this Council stated that those candidate countries of Central and Eastern Europe who wish to do so shall become members of the Union if they meet the following conditions:

- stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities;
- the existence of a functioning market economy, as well as the ability to cope with competitive pressures and market forces within the Union;
- the ability to take on the obligations of membership, including adherence to the aims of political, economic and monetary union.

A judgment on these three groups of criteria - political, economic, and the ability to take on the *acquis* - depends also on the capacity of a country's administrative and legal systems to put into effect the principles of democracy and the market economy and to apply and enforce the *acquis* in practice.

The **method** followed in preparing these Opinions has been to analyse the situation in each candidate country, looking forward to the medium term prospects, and taking into account progress accomplished and reforms already under way. For the political criteria, the Commission has analysed the current situation, going beyond a formal account of the institutions to examine how democracy and the rule of law operate in practice.

1. Political Criteria

Romania has democratic institutions whose stability now seems secure. They still need to be consolidated by fuller respect in practice for the rule of law at all levels of the structures of government. Elections are free and fair, and in November 1996 led to genuine alternation of power.

A number of gaps remain as regards respect for fundamental rights, even if the measures adopted and the undertakings given by the Romanian authorities since November 1996 constitute progress. Considerable efforts are still needed in the fight against corruption, and in order to improve the operation of the judicial system and the protection of individual rights against the police and the secret services as well as during the operation of the penal system.

If the Hungarian minority seems well integrated in the light of recent improvements in their situation, this does not seem to be the case for the Roma, who constitute a significant minority.

Reforms undertaken for protection of children placed in orphanages constitute significant progress, but still need to achieve their full results.

Current improvements following the arrival in power of a new government make it possible to conclude that Romania is on the way to satisfying the political criteria set by the European Council at Copenhagen.

2. Economic Criteria

After several earlier unsuccessful efforts at reform of the Romanian economy, the new government elected in November 1996 has put in place a radical programme of macroeconomic stabilisation and structural reform. This policy is being implemented at a time of diminishing growth (7.1 % in 1995, 4.1% in 1996), accelerating inflation (56.9% in 1996) and deteriorating budget and trading deficits.

Romania has a population of 22.6 million and GDP per head is 24% of the EU average. The agricultural sector employs more than one third of the working population and contributes 20% of the Gross Value Added. There are still substantial structural problems despite recent privatisation. Trade with the EU represents 55% of Romania's exports and 52% of its imports.

On the basis of its analysis, the Commission's judgement as to **Romania's ability to meet the economic criteria** established at Copenhagen is as follows:

Romania has made considerable progress in the creation of a **market economy**. The reorientation of economic policy since the recent change of government has meant a change for the better, but much still needs to be done. While prices have been almost fully liberalized, property rights are not yet fully assured for land, the legal system is still fragile and policy making on economic issues has not always been coherent. Further efforts to consolidate the administrative and legal framework and to address persistent macroeconomic imbalances, are required to ensure a stable environment.

Romania would face serious difficulties to cope with **competitive pressure and market forces within the Union** in the medium term. It has made progress recently towards improving the competitive capacity of its economy, notably by addressing major distortions such as low energy prices, by accelerating privatization, and by beginning to liquidate large loss-making state owned firms. However, much of Romania's industry is obsolete and agriculture needs to be modernised. The low levels of research and development, and of skills among the workforce also suggest that the economy needs a number of years of sustained structural reform.

3. Capacity to take on the obligations of membership

Romania's ability to take on the *acquis* has been judged according to several indicators:

- the obligations set out in the Europe Agreement, particularly those relating to the right of establishment, national treatment, free circulation of goods, intellectual property and public procurement;
- implementation of the measures set out in the White Paper as essential for establishing the single market;
- progressive transposition of the other parts of the *acquis*.

Romania has made significant efforts to comply with its obligations under the Europe Agreement and with the recommendations of the White Paper; but the rate of transposition is too low.

Romanian legislation has only taken on a small part of the *acquis* relating to the key elements of the **single market** including competition, except in respect of industrial and intellectual property. The scale of progress still needed requires very substantial and sustained efforts, both in approximation of legislation and in the creation of structures for implementing it. Complete restructuring of the financial sector, in order to re-establish essential public and investor confidence in it, is among the highest priorities.

In general, the weakness of public administration constitutes a serious problem, putting into question both the rate and the quality of approximation of legislation. The various structures necessary for applying legislation on the single market are not currently capable of carrying out their roles.

As for **the other parts of the *acquis***, if Romania pursues its work of transposition, it should not have significant difficulty in applying it in the medium term in the following fields: education, training and youth; research and technological development; fisheries; small and medium enterprises; consumer protection; international trade relations; and development.

By contrast, substantial efforts will be needed in the fields of telecommunications; audio-visual; taxation and customs.

Romania has not yet created the conditions which are conducive to a dynamic and competitive private sector. Its **industry** therefore will only be ready in the long term to withstand competitive pressures in the single market.

For the **environment**, very important efforts will be needed, including massive investment and strengthening of administrative capacity for enforcement of legislation. Full compliance with the *acquis* could only be expected in the very long term and would necessitate increased levels of public expenditure.

Romania has made some progress in taking on the *acquis* for **transport**. It needs to increase its efforts, notably in respect of road freight transport and in the maritime and rail sectors. Romania will also need to provide the investment necessary to complete the European transport network, which is an essential element of the effective operation of the single market.

Romania still needs to make substantial efforts to bring its **employment and social affairs** standards into line with those of the EU. Progress is particularly needed in respect of labour law and health and safety. There also needs to be an effective labour inspectorate.

On **regional policy** Romania has barely started to put in place the structures needed to use effectively the Union's structural funds. It will also need to establish effective systems of financial control.

Romania needs to implement fundamental reform of its **agricultural** sector before it can fulfil the obligations of membership. Particular effort will be needed to restructure the sector and the agri-food industry and to put in place health and quality control mechanisms. Romania will also need to strengthen the administrative structures responsible for implementing the common agricultural policy.

For **energy** efforts are still needed on price fixing, state intervention in the solid fuel and uranium sectors and the operation of monopolies. Romania has at Cernavoda a nuclear power station which produces around 8% of the country's electricity. It was built in accordance with Western technology. A solution will need to be found to the problem of nuclear waste.

On the basis of the analysis of Romania's capacity to apply the *acquis*, it is not yet possible to be sure when it could become able to take and implement the measures necessary to remove the controls at **borders** between Romania and member states of the Union and to establish them instead at the Union's external border.

Romania does not seem to be in a position to participate in the third stage of **economic and monetary union** which implies coordination of economic policies and the complete liberalisation of movement of capital. It is premature to judge whether Romania will be in a position by the time of its accession, to participate in the Euro area. That will depend on how far the success of its structural transformation enables it to achieve and sustain permanently the convergence criteria. These are however not a condition for membership.

Romania faces a particular challenge in **justice and home affairs**. So far it has made limited progress in taking on the *acquis* in this field. The new government has undertaken an ambitious programme to introduce the essential institutional reforms.

Romania should be able to fulfil its obligations in respect of the **common foreign and security policy**.

Romania has recently improved its relations with its neighbours particularly with Hungary and Ukraine, and has settled most of its disputes with these countries.

4. Administrative and Legal Capacity

Romania's administrative structures will need a major and sustained effort of reform if it is to have the capacity to apply the *acquis* effectively.

The capacity of the judicial system to ensure uniform application of Community law is of great importance, especially for implementation of the single market. It is not yet possible to judge Romania's prospects in this sector.

CONCLUSION

In the light of these considerations, the Commission concludes that :

- the current improvement in Romania, following the arrival in power of a new government, indicates that Romania is on its way to satisfy the political criteria;

- Romania has made considerable progress in the creation of a market economy, but it would still face serious difficulties to cope with competitive pressure and market forces within the Union in the medium term;

- despite the progress that has been made, Romania has neither transposed nor taken on the essential elements of the *acquis*, particularly as regards the internal market. It is therefore uncertain whether Romania will be in a position to assume the obligations of membership in the medium term. In addition, considerable efforts will be needed in the areas of environment, transport, employment and social affairs, justice and home affairs as well as agriculture. More generally, substantial administrative reform will be indispensable if Romania is to have the structures to apply and enforce the *acquis* effectively.

In the light of these considerations, the Commission considers that negotiations for accession to the European Union should be opened with Romania as soon as it has made sufficient progress in satisfying the conditions of membership defined by the European Council in Copenhagen.

The reinforced pre-accession strategy will help Romania to prepare itself better to meet the obligations of membership, and to take action to improve the shortcomings identified in the Opinions. The Commission will present a report no later than the end of 1998 on the progress Romania has achieved.

Annex

The annexes were not included in the original document.
The pagination is from the Bulletin of the European
Communities, Supplement 8/97.

Composition of parliament

Results of the last parliamentary elections (November 1996)

		Chamber	Senate
Political alliances	Abbreviation	Seats	Seats
Democratic Convention of Romania	DCR	122	53
Party of Social Democracy of Romania	PSDR	91	41
Social Democratic Union	USD	53	23
Hungarian Democratic Union of Romania	UDMR	25	11
Greater Romania Party	PRM	19	8
Romanian National Unity Party	PUNR	18	7

Single market: White Paper measures

This table is based on information provided by the Romanian authorities and confirmed by them as correct as at the end of June 1997. It does not indicate the Commission's agreement with their analysis. The table includes directives and regulations cited in the White Paper which total 899. These have been listed in accordance with the

categorization used in the White Paper and in relation to the policy areas covered. The table shows the number of measures for which the Romanian authorities have notified the existence of adopted legislation having some degree of compatibility with the corresponding White Paper measures.

White Paper chapters		Directives		Regulations		Total
		Stage I	Stage II/III	Stage I	Stage II/III	
1. Free movement of capital	Romania	0	0	0	0	0
	Number of White Paper measures	3	1	0	0	4
2. Free and safety of industrial products	Romania	34	63	1	2	100
	Number of White Paper measures	56	104	4	1	165
3. Competition	Romania	3	0	1	0	4
	Number of White Paper measures	3	0	1	0	4
4. Social policy and action	Romania	10	15	0	0	25
	Number of White Paper measures	12	15	0	0	29
5. Agriculture	Romania	69	25	7	2	101
	Number of White Paper measures	93	46	62	2	203
6. Transport	Romania	17	11	3	9	40
	Number of White Paper measures	19	15	8	13	55
7. Audio-Visual	Romania	1	0	0	0	1
	Number of White Paper measures	1	0	0	0	1
8. Environment	Romania	26	7	5	0	38
	Number of White Paper measures	31	7	7	0	45
9. Telecommunication	Romania	8	3	0	0	11
	Number of White Paper measures	9	7	0	0	16
10. Direct taxation	Romania	1	1	0	0	2
	Number of White Paper measures	2	2	0	0	4
11. Free movement of goods	Romania	0	0	0	0	0
	Number of White Paper measures	0	0	0	0	0
12. Public procurement	Romania	4	0	0	0	4
	Number of White Paper measures	5	1	0	0	6
13. Financial services	Romania	12	7	0	0	19
	Number of White Paper measures	13	8	0	0	21
14. Protection of personal data	Romania	0	0	0	0	0
	Number of White Paper measures	0	2	0	0	2
15. Company law	Romania	2	3	0	0	5
	Number of White Paper measures	2	3	0	1	6
16. Accountancy	Romania	3	1	0	0	4
	Number of White Paper measures	3	2	0	0	5
17. Civil law	Romania	0	1	0	0	1
	Number of White Paper measures	1	1	0	0	2
18. Mutual recognition of professional qualification	Romania	0	10	0	0	10
	Number of White Paper measures	2	16	0	0	18
19. Intellectual property	Romania	5	3	0	0	8
	Number of White Paper measures	5	3	0	3	11
20. Energy	Romania	8	0	1	0	9
	Number of White Paper measures	10	2	3	0	15
21. Customs law	Romania	2	1	12	14	29
	Number of White Paper measures	2	1	14	184	201
22. Indirect taxation	Romania	7	3	0	0	10
	Number of White Paper measures	15	54	0	6	75
23. Consumer protection	Romania	5	0	0	0	5
	Number of White Paper measures	8	3	0	0	11
Total	Romania	217	154	30	25	426
	Number of White Paper measures	295	293	99	212	899

Statistical data

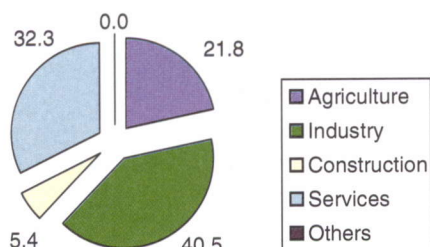
If not explicitly stated otherwise, data contained in this annex are collected from the National Commission for Statistics of Romania (Comisia Nationala pentru Statistica) with whom Eurostat and Member States' statistical offices have been cooperating for several years in the framework of the Phare programme. Regular data collection and dissemination are part of this cooperation process with the aim of enabling the application of EU laws and practices in statistics. The data presented below have been compiled as far as possible using EU definitions and standards, which in some cases differ from national practices. This may occasionally give rise to differences between the data pre-

sented here and those shown elsewhere in the opinion, which are generally based on the individual applicant countries' updated replies to the questionnaire sent to them in April 1996. The exact compatibility with EU standards on statistics and thus the comparability with EU figures can still not be guaranteed, particularly those statistics that have not been supplied through Eurostat, but have been delivered directly by the countries concerned. Wherever available, methodological notes are given describing content and particularities of statistical data presented in this annex. Data correspond to the information available as of May 1997.

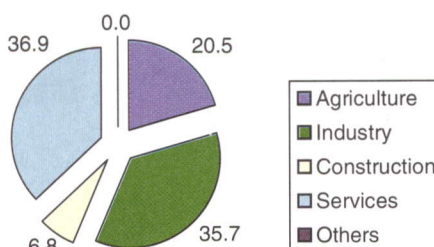
Basic data

	1990	1993	1994	1995	1996
	1 000 ha				
Total area		23 839.0	23 839.0	23 839.0	23 839.0
Population (end of the period)	in 1 000s				
– Total		22 748.0	22 712.0	22 656.0	22 608.0
– Females		11 579.0	11 569.0	11 548.0	11 527.0
– Males		11 169.0	11 143.0	11 108.0	11 081.0
	per 1 km ²				
Population density	97.7			95.1	94.8
	in % of total population				
Urban population	54.3			54.9	54.9
	per 1 000 of population				
Death rate		11.6	11.7	12.0	12.6
Birth rate		11.0	10.9	10.4	10.2
Income and GDP per capita	ECU				
– Average monthly wage and salary per employee	118.0			79.0	
– GDP per capita	1 294.0			1 203.0	
Structure of production: share of branch GVA	in % of total, gross value-added				
– Agriculture	21.8			20.5	
– Industry	40.5			35.7	
– Construction	5.4			6.8	
– Services	32.3			36.9	

Share of branch GVA in 1990



Share of branch GVA in 1995



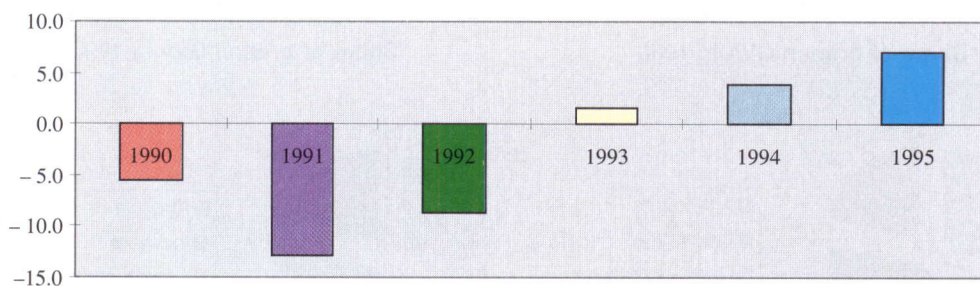
Population (end of period), population density and urban population: Data for 1996 refer to 1st July.

Structure of production: share of branch of GVA: Services include statistical discrepancy.

National accounts

	1991	1992	1993	1994	1995
	in millions of national currency				
Gross domestic product (current prices)	2 203 912	6 029 168	20 035 719	49 773 186	72 559 700
	in billions of ECU				
Gross domestic product (current prices)	23.3	15.1	22.5	25.1	27.3
	in purchasing power standard per capita				
Gross domestic product			3 633.0	3 780.0	4 055.0
	% change over the previous year				
Gross domestic product	- 12.9	- 8.8	1.5	3.9	7.1
Final consumption expenditure	- 11.8	- 5.6	1.2	3.8	14.3
- of households and NPISH	- 16.3	- 7.5	0.9	2.4	19.0
- of general government	10.6	2.2	2.7	11.0	- 7.6
Gross fixed capital formation	- 31.6	11.0	8.3	20.7	8.6
Exports of goods and services	- 17.9	2.9	11.1	19.0	32.6
Imports of goods and services	- 29.6	7.5	4.4	2.8	44.8
	in % of gross domestic product				
Final consumption expenditure	75.9	77.0	76.0	77.3	80.8
- of households and NPISH	60.7	62.7	63.7	63.5	68.6
- of general government	15.2	14.3	12.3	13.8	12.2
Gross fixed capital formation	14.4	19.2	17.9	20.3	21.9
Exports of goods and services	17.6	27.8	23.0	24.9	27.8
Imports of goods and services	21.5	36.2	28.0	27.0	33.0

GDP (% Change over the previous year)



Main economic indicators

	1990	1991	1992	1993	1994	1995	1996
Inflation rate	% change over the previous year						
	5.1	170.2	210.4	256.1	136.7	32.3	38.8
Industrial production volume indices	previous year = 100						
				101.1	103.3	109.4	109.9
Gross agricultural production volume indices				110.2	100.2	104.5	101.8
Unemployment rate (ILO methodology)	in % labour force						
– Total					8.1	8.0	
– Less than 25 years					22.6	20.8	
– 25 years and more					5.3	5.4	
Gross foreign debt	in billions of USD						
	2.169	3.549	3.708	4.327	5.481		
Balance of payments	in millions of USD						
– Exports of goods	5 775	4 266	4 364	4 892	6 151	7 910	8 239
– Imports of goods	– 9 202	– 5372	– 5784	– 6020	– 6562	– 9487	– 10368
– Trade balance	– 3 427	– 1 106	– 1 420	– 1 128	– 411	– 1577	– 2 130
– Services, net	– 177	– 139	– 168	– 115	– 171	– 190	– 271
– Income, net	161	15	– 87	– 145	– 129	– 241	– 314
– Current account balance	– 3 337	– 1 012	– 1 564	– 1 174	– 428	– 1 639	– 2 336
– Capital and final account (excluding reserves)	1 606	1 059	1 054	968	952	847	2 935
– Reserve assets	1 843	– 187	113	54	– 618	257	– 217

Inflation rate: Percentage change of yearly average over the previous year — all items index (data are based on national CPIs which are not strictly comparable).

Industrial production volume indices: Industrial production covers mining and quarrying, manufacturing and electricity, gas and water supply (according to the NACE Classification sections C, D, E). The industrial production indices are calculated based on the physical industrial output of approximate 600 representative products and groups of products, weighted with the 1991 added value at factor cost.

Gross agricultural production volume indices: Indices of gross agricultural production are calculated on the basis of the previous year.

Unemployment rate (by ILO methodology): This rate is derived from the LFSS (Labour Force Sample Survey), observing the following ILO definitions and recommendations:

- **Labour force** employed and unemployed persons in the sense of the ILO definitions stated below.
- **Employed** all persons aged 15+, who during the reference period worked at least one hour for wage or salary or other remuneration as employees, entrepreneurs, members of cooperatives or contributing family workers. Members of armed forces and women on child-care leave are included.
- **Unemployed** all persons aged 15+, who concurrently meet all three conditions of the ILO definition for being classified as the unemployed: (i) have No. work, (ii) are actively seeking a job and (iii) are ready to take up a job within a fortnight.

Gross foreign debt: Debt is extracted from the OECD's External Debt Statistics.

Balance of payments: Data is derived from IMF database, their comparability with respective EU statistics cannot be guaranteed, but balance of payments is compiled mainly in accordance to IMF standards. Balance in trade of goods in accordance with balance of payments principles. Exports and imports are both in f.o.b. values. Net income includes direct, portfolio and other investment income, compensation of employees. Current account balance by definition of IMF Fifth Manual, capital transfers are excluded. Reserve assets means changes in reserve assets during the year; (+) signifies an increase, (–) a decrease in reserve assets.

Foreign trade

	1992	1993	1994	1995	1996
Imports and exports (current prices)	in millions of USD				
– Imports		6 693.5	7 201.5	10 413.5	10 226.2
– Exports		4 968.0	6 206.8	7 974.3	7 778.2
– Balance of trade		– 1 725.5	– 994.7	– 2 439.2	– 2 447.9
External trade volume indices	previous year = 100				
– Imports					
– Exports					
Structure of import by SITC (current prices)	in % of total import				
– (0+1) food and live animals, beverage and tobacco		13.8	8.5	8.2	6.7
– 2 crude materials, inedible		6.2	5.8	5.3	5.6
– 3 mineral fuels and lubricants		25.8	23.6	21.4	21.1
– 4 animal and vegetable oils etc.		0.2	0.3	0.2	0.2
– 5 chemicals and related products		9.1	9.1	10.5	9.9
– 6 manufactured goods classified chiefly by material		15.7	18.5	19.8	21.9
– 7 machinery and transport equipment		22.3	25.3	24.8	25.0
– 8 miscellaneous manufactured articles		6.6	8.0	8.9	8.7
Structure of export by SITC (current prices)	in % of total export				
– (0+1) food and live animals, beverage and tobacco		5.1	5.4	5.5	7.7
– 2 crude materials, inedible		4.0	4.5	3.8	3.9
– 3 mineral fuels and lubricants		10.0	10.0	7.9	7.8
– 4 animal and vegetable oils etc.		1.3	0.8	1.0	0.9
– 5 chemicals and related products		8.0	9.6	10.8	10.1
– 6 manufactured goods classified chiefly by material		27.4	24.3	25.9	23.2
– 7 machinery and transport equipment		17.1	14.3	13.1	13.5
– 8 miscellaneous manufactured articles		27.0	30.6	31.7	32.7
External trade price indices	previous year = 100				
– Imports					
– Exports					

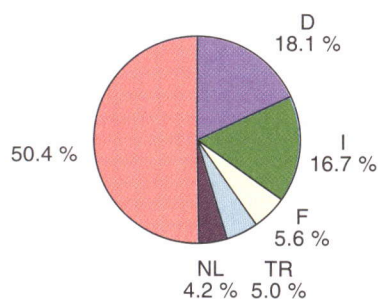
Imports and exports (current prices): Trade data exclude direct re-exports, trade in services and trade with customs free zones as well as licences, know-how and patents. The data are based upon the special trade system. *Trade classifications:* Romania is using the commodity classification according to the *Combined Nomenclature*. *Import & export:* The value of imported and exported commodities has been established on the basis of the *FOB* effective prices for *exports* and of *CIF* effective prices for *imports*. The transformation of *CIF* imports in *FOB* imports has been calculated by means of a transformation *CIF/FOB* coefficient, that in 1995 and 1996 is equal to 1.0834; this value was established by research by the main commercial societies. The customs statistics is utilized for monitoring of foreign trade data. Eurostat has converted national currencies to the US dollar by applying the International Monetary Fund annual average exchange rates.

Structure of external trade by SITC (current prices): Trade data exclude direct re-exports, trade in services and trade with customs free zones as well as licences, know-how and patents. The data are based upon the special trade system. *Trade classifications:* Romania is using the commodity classification according to the *Combined Nomenclature*. *Imports & Exports:* The value of imported and exported commodities has been established on the basis of the *FOB* effective prices for *exports* and of *CIF* effective prices for *imports*. The transformation of *CIF* imports in *FOB* imports has been calculated by means of a transformation *CIF/FOB* coefficient, that in 1995 and 1996 is equal to 1.0834; this value was established by research by the main commercial societies. The imported and exported commodities are classified by using the *Combined Nomenclature* which also lies on the basis of custom tariff.

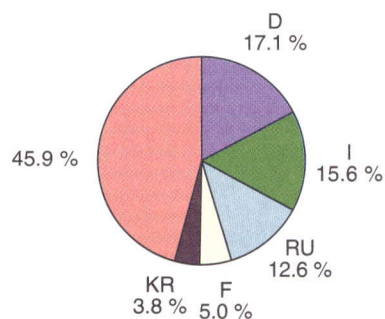
Foreign trade

	1992	1993	1994	1995	1996
Structure of imports by main countries (current prices)	in % of total imports				
1st partner		D 15.8	D 18.0	D 17.5	D 17.1
2nd partner		RU 11.7	RU 13.8	I 3.3	I 15.6
3rd partner		I 9.4	I 11.8	RU 12.0	RU 12.6
4th partner		IR 9.3	US 6.5	F 5.2	F 5.2
5th partner		F 7.8	IR 6.2	US 4.1	KR 4.2
others		46.0	43.7	47.9	45.9
Structure of exports by main countries (current prices)	in % of total exports				
1st partner		D 14.3	D 16.1	D 18.1	D 18.1
2nd partner		CN 8.6	I 12.9	I 15.7	I 16.7
3rd partner		I 8.3	F 5.1	F 5.8	F 5.6
4th partner		TR 5.7	CN 4.5	TR 4.4	TR 5.0
5th partner		RU 4.5	TR 4.1	NL 3.0	NL 4.2
others		58.6	57.3	53	50.4

Structure of export by main partners in 1996



Structure of import by main partners in 1996



CN	China	KR	Korea (Republic of)
D	Germany	NL	Netherlands
F	France	RU	Russian Federation
IR	Iran (Islamic Republic of)	TR	Turkey
I	Italy	US	United States

Social indicators

	1991	1992	1993	1994	1995
Population on 1 January	1 000s				
	23 192.27	22 811.39	22 778.53	22 748.03	22 712.0
Proportion of population by age (1 January 1995)	in % of total population				
y0-14					20.8
y15-24					16.7
y25-44					28.3
y45-64					22.4
y65-max					11.8
	total number				
Live births	275 275	260 393	249 994	246 736	
Deaths	251 760	263 855	263 323	266 101	
Infant deaths					
– Less than 1 year	6 258	6 080	5 822	5 894	
– Still birth	1 910	1 700	1 582	1 623	
Marriages	183 388	174 593	161 595	154 221	
Divorces	37 031	29 290	31 193	39 633	
	per 1 000 of population				
Crude marriage rate	7.91	7.66	7.10	6.78	6.8
Crude divorce rate	1.60	1.29	1.37	1.74	1.5
Natural growth rate	1.01	– 0.15	– 0.59	– 0.80	
Net migration rate	– 17.44	– 1.29	– 0.86	– 0.72	
Total population growth rate	– 16.43	– 1.442	– 1.44	– 1.57	
Total fertility rate	1.56	1.51	1.44	1.41	
Infant mortality rate	22.73	23.35	23.29	23.89	21.2
Late foetal mortality rate	6.89	6.49	6.29	6.53	
Life expectancy	at birth				
– Males					65.7
– Females					73.4
Life expectancy	at 65 years				
– Males					12.8
– Females					15.3

Population on 1 January: The 1991 net migration and increase/decrease have been affected by statistical differences between the intercensal population estimates and the results of the January 1992 census.

Net migration: The 1991 net migration has been affected by statistical differences between the intercensal population estimates and the results of the January 1992 census.

Total population growth: The 1991 increase/decrease has been affected by statistical differences between the intercensal population estimates and the results of the January 1992 census.

Labour market

	1993	1994	1995	1996
Economic activity rate (ILO methodology)	in percent of population age +15			
		64.9	67.2	
Average employment	in 1 000s			
	10 062	10 011	9 493	
Unemployment rate (ILO methodology)	in % of labour force			
– Total		8.1	8.0	
– Less than 25 years		22.6	20.8	
– 25 years and more		5.3	5.4	
Registered unemployment (end of period)	in % of economically active population			
	10.4	10.9	9.5	6.3
Average paid employment indices by NACE classes	Previous year = 100			
– Agriculture, hunting, forestry and fishing	99.2	88.7	87.4	
– Mining and quarrying	96.9	99.1	97.1	
– Manufacturing	92.2	93.6	90.4	
– Production and distribution of electricity, gas and water	100.2	103.9	100.1	
– Construction	116.8	96.0	86.1	
– Transport, storage and communication	94.3	94.5	95.5	
Monthly wages and salaries indices				
– Real	83.2	100.1	111.9	107.5
– Nominal	296.5	237.7	148.9	149.3

Economic activity rate (ILO methodology): Percentage of labour force in the total population aged 15+. This rate is derived from the LFSS (Labour Force Sample Survey) observing the following ILO definitions and recommendations where:

Labour force employed and unemployed persons in the sense of the ILO definitions stated below.

Employed all persons aged 15+, who during the reference period worked at least one hour for wage or salary or other remuneration as employees, entrepreneurs, members of cooperatives or contributing family workers. Members of armed forces and women on child-care leave are included.

Unemployed all persons aged 15+, who concurrently meet all three conditions of the ILO definition for being classified as the unemployed: (i) have No work, (ii) are actively seeking a job and (iii) are ready to take up a job within a fortnight.

Unemployment rate (by ILO methodology): This rate is derived from the LFSS (Labour Force Sample Survey) observing the following ILO definitions and recommendations (see ILO definitions above).

Average employment: For 1993, 1994 and 1995, the data refer to the civilian employment resulted from:

* enterprises survey that comprise:

- all enterprises with 200 or more employees,
- representative sample for enterprises with less than 200 employees.

* administrative sources.

Beginning with 1995, the data refer to the total employment (included armed forces) resulting from the quarterly household labour force survey.

For 1996, the annual average employment data is not available, but the quarterly data for 1996 is available:

Q1 1996	9 896
Q2 1996	11 410
Q3 1996	11 543
Q4 1996	11 592

Average paid employment indices by NACE classes: The data for the entrepreneurial sphere cover in all enterprises with 200 or more employees, and representative sample for enterprises with less than 200 employees.

Registered unemployment (end of period): Registered unemployment in percent: percentage of unemployed registered in civil economically active population, based on the Labour force sample survey (LFSS). The unemployment rate is calculated on the base of the civilian active population.

Monthly wages and salaries indices: Index numbers of monthly real wages and salaries are derived from index of *net* nominal wages divided by consumer price index of employees. The data for entrepreneurial sphere cover all enterprises with 200 or more employees, and a representative sample for enterprises with less than 200 employees.

Public finance

	1990	1991	1992	1993	1994
Government budget	in billions of national currency				
– Consolidated central government revenue	297.91	822.81	2 200.47	6 389.17	14 884.3
– Grants					
– Consolidated central government expenditure	289.87	779.98	2 406.03	6 311.76	15 913.10
– Consolidated general government expenditure	332.46	826.82	2 479.20	6 686.95	16 927.00
– Consolidated central government deficit/surplus	8.04	42.83	– 205.56	77.41	– 1 028.80
– General government deficit/surplus	8.72	44.82	– 198.95	97.89	– 971.33
Government budget	in % of gross domestic product				
– Consolidated central government expenditure	33.80	35.40	39.90	31.50	32.00
– Consolidated general government expenditure	33.80	37.50	41.10	33.30	34.00
– Consolidated central government deficit/surplus	0.90	1.90	– 3.40	0.40	– 2.10
– General government deficit/surplus	1.00	2.00	– 3.30	0.50	– 2.00

Government budget: These data relate to central and general government as published in the IMF's *Government Finance Statistics Yearbook (1996) (GFSY)*; included also is the country's presentation in the *GFSY*.

Because the *GFSY* does not present statistics for general government, but for individual levels of government separately, the consolidated series presented here were obtained from central and local government data and adjusted in consolidation for the identified intergovernmental transfers.

Even though the statistics cover the central and local government published in *GFSY*, the coverage may not be exhaustive if some central or local government units are not included in that coverage. A measure of the exhaustiveness of the coverage can be obtained by comparing in the *GFSY* the *note on the coverage of data* for individual countries with the list of central and local government units provided.

It should be noted that the deficit/surplus used here is equal to revenue and grants minus expenditure, and does not take lending minus repayments into account (see further below).

The netting of inter-government transfers carried-out in the attached tables is limited to the current and capital transfers consisting of the identified grants and current and capital subsidies between the levels of government. Other types of transactions occurring between government levels, such as the payments of taxes and employers' social security contributions, and the reciprocal purchases of goods and services are not normally classified as inter-governmental transfers have not been eliminated in the consolidation process. Finally, whether the absence of data for current and capital transfers should be attributed to the absence of transfer or to lack of data is unclear; in all cases absence of information on transfers have been deemed to represent zero-transfers.

a. *Government expenditure* consists of general government cash expenditures on current and capital goods and services, interest payments and current and capital transfers but excludes non-cash transactions.

b. *Deficit/surplus* equals cash revenue and cash grants minus cash expenditure. This measure of the deficit/surplus differs from that used in *GFS* which equals cash revenue and cash grants, minus cash expenditure, *minus net lending*. This exclusion of net lending (consisting, in the *GFS* methodology, of operations in financial assets and liabilities carried out for specific policy purposes, rather than for liquidity purposes) brings the measure of the deficit/surplus presented here closer to the national accounts concept of net borrowing/net lending. Also, as a result of this exclusion, receipts from privatization (classified as repayments in the *GFS* methodology) do not enter in the determination of the deficit/surplus presented in the attached tables (and therefore do not reduce the deficit).

Financial sector

	1990	1991	1992	1993	1994	1995	1996
Monetary aggregates	billions of US dollars						
– Monetary aggregate M1				1.75	2.57	2.57	2.77
– Quasi money				1.76	3.46	4.34	4.75
Total reserves (gold excluded, end of period)	millions of US dollars						
				95	2 086	1 579	2 103
Average short-term interest rates	% per annum						
– Lending rate							
– Deposit rate							
Official discount rate (end of period)				70	58	35	35
USD exchange rates	USD 1 = ROL...						
– Average of period			307.95	760.05	1 655.09	2 033.28	3 085.39
– End of period			460.00	1 276.00	1 767.00	2 578.00	4035.00
ECU exchange rates	ECU 1 = ROL ...						
– Average of period	28.563	94.659	399.751	890.018	1 980.655	2 659.551	4 740.472
– End of period	47.320	253.436	557.014	1 423.598	2 173.478	3 388.111	5 055.815

Monetary aggregates (end of period): *Money (M1)* Includes demand deposits and currency outside banks. *Quasi money (QM)* Include time, savings and foreign currency deposits. Eurostat has converted national currencies to the US dollar by applying the International Monetary Fund annual end of period exchange rates.

Total reserves (gold excluded, end of period): The statistics on official foreign reserves are extracted from the IMF's monthly *International Financial Statistics (IFS)*. Total reserves (gold excluded) are defined as the sum of central bank holdings of foreign currencies and other (gross) claims on non-residents; this definition excludes claims on residents denominated in foreign currency. According to the definition, official foreign reserves are calculated at market exchange rates and prices in force at the end of the period under consideration. Total reserves (gold excluded) published in IFS may differ from the figures published by the national authorities. Some factors contributing to possible differences are the valuation of the reserve position in the Fund, and a different treatment of claims in non-convertible currencies.

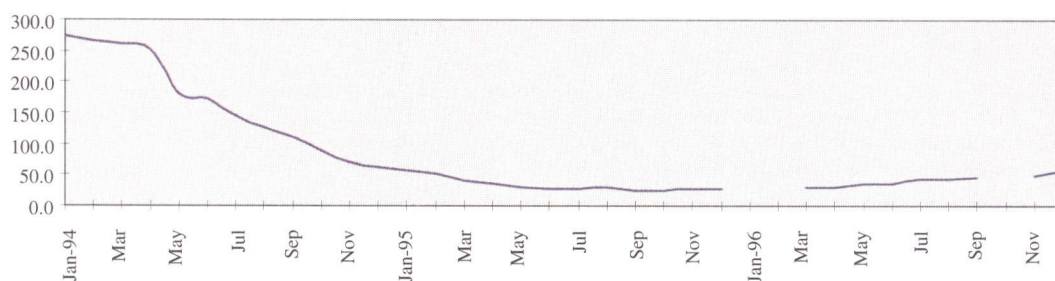
USD exchange rates: International Monetary Fund exchange rates as present in the publication *International Financial Statistics*.

Inflation (12 months changes)

Percentage change of the CPIs with the current month compared with the corresponding month of the previous year (t/t-12)

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
1993												
1994	272.0	264.1	260.9	248.1	180.2	172.5	144.5	124.6	110.4	88.8	70.1	61.7
1995	57.3	50.6	40.5	34.6	29.6	28.0	26.0	28.2	25.3	24.3	25.8	27.8
1996			28.3	28.7	34.2	33.8	43.9	44.2	45.3		47.4	56.9

Inflation (% change of CPI)



Inflation (12 months changes): Inflation rates (12 months changes) are percentage changes of the CPIs with the current month compared with the corresponding month of the previous year. Inflation rates are based on national CPIs which are not strictly comparable between candidate countries or with those based on EU HICPs (different methods, concepts, practices in the calculation of CPIs). Inflation (12 months changes) is based on ILO data.

Industry

	1993	1994	1995	1996
Structure of GDP by economic activities (NACE, current prices)	in % of gross domestic product			
— Mining and quarrying	32.8	33.0		
— Manufacturing	26.6	28.7	34.6	36.0
— Production and distribution of electricity, gas and water	3.9	4.2		
Industrial production volume indices by NACE classes	previous year = 100			
— Total	101.1	103.3	109.4	109.9
— Mining and quarrying	98.6	101.8	99.4	99.3
— Manufacturing	100.7	103.8	112.1	112.5
— Production and distribution of electricity, gas and water	106.9	99.9	103.3	101.7

Structure of GDP by economic activities (NACE classes, current prices): expressed in basic prices. Since 1995 data for manufacturing include mining and quarrying, manufacturing and electricity, gas and water supply (C+D+E = total industry).

Industrial production volume indices by NACE classes: Industrial production covers mining and quarrying, manufacturing and electricity, gas and water supply (according to the NACE Classification Sections C, D, E). The industrial production indices are calculated based on the physical industrial output of approximate 600 representative products and groups of products, weighted with the 1991 added value at factors' cost.

Infrastructure

	1985	1990	1995	1996
	in km per 1 000 km ²			
Railway network	47.4	47.6	47.7	
	km			
Length of motorways	72 799	72 816	72 859	
	inhabitants			
Number of inhabitants per passenger car		18	10	

Number of inhabitants per one passenger car: Data exclude minibuses.

Agriculture

	1992	1993	1994	1995	1996
Land area by land-use categories	in 1 000 ha				
— Total	23 839	23 839	23 839	23 839	23 839
— Agricultural land	14 790	14 793	14 798	14 797	14 743
— Forest	6 682	6 681	6 680	6 680	
— Arable land	9 357	9 341	9 338	9 337	9 336
— Permanent meadows and pastures	4 830	4 852	4 872	4 890	4 869
Agricultural land by legal status	in % of agricultural land				
— State enterprise		30	30	28	
— Cooperatives		12	12	12	
— Others		58	58	60	

	1992	1993	1994	1995	1996
Share of GDP	in % of gross domestic production				
— Agriculture, hunting, forestry and fishing (NACE A + B)		21	19.9	19.9	19.3
	previous year = 100				
		110.2	100.2	104.5	101.8
Gross agricultural production volume indices					
Main crops by area	in 1 000 ha				
— Cereals	5 757.5	6 383.0	6 553	6 438.6	5 847.2
— of which: Wheat	1 460.8	2 281.6	2 412.2	2 480.8	1 780.6
— Potatoes	219.0	249.0	249.0	244.0	257.0
— Sugar beet	180.0	97.0	130.0	133.0	136.0
— Fodder beet	47.0	42.0	39.0	40.0	39.0
Main crops by area	in 100 kg/ha				
— Cereals	21.3	24.2	27.7	30.8	24.3
— of which: Wheat	22.0	23.3	25.4	30.9	17.66
— Potatoes	118.9	149.0	118.5	123.6	139.5
— Sugar beet	161	182.8	212.6	199.3	209.6
— Fodder beet	268.7	326.3	309.2	270.6	

	1992	1993	1994	1995	1996
Sales or procurement of animal for slaughter	in 1 000 tons of live weight				
— Pigs		646	618	561	594
— Cattle		330	340	298	303
— Poultry		163	123	152	159
Livestock breeding intensity (end of period)	heads per 1 000 ha of agricultural land				
— Cattle		243	235	236	250
— of which: Cows		121	121	122	133
— Sheep		773	736	702	663
	heads per 1 000 ha of arable land				
— Pigs		991	830	853	

Structure of GDP by economic activities (NACE classes, current prices): expressed in basic prices.

Gross agricultural production volume indices: Data are calculated on the basis of the previous year.

Sales or procurement of animals for slaughter: The data refer to the sales of agricultural products outside the Division 01: Agriculture.

